A REPORT TO THE MONTANA LEGISLATURE

FINANCIAL AUDIT

State of Montana

For the Fiscal Year Ended June 30, 2018

JANUARY 2019

LEGISLATIVE AUDIT DIVISION

17-01B

Legislative Audit Committee

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Financial Audits

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

Reports can be found in electronic format at:
https://leg.mt.gov/lad/audit-reports

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

January 2019

The Legislative Audit Committee
of the Montana State Legislature:

This financial audit report contains our Independent Auditor's Report on the basic financial statements (BFS) and the Schedule of Expenditure of Federal Awards of the state of Montana for the fiscal year ended June 30, 2018. The basic financial statements were prepared by the State Financial Services Division of the Department of Administration. The Schedule of Expenditures of Federal Awards was prepared by the Governor's Office of Budget and Program Planning.

We issued an unmodified opinion on each of the eleven opinion units included in the BFS, as described in the Independent Auditor's Report on page A-5. This means the reader can rely on the information presented in the report. In addition, we issued an unmodified in-relation-to opinion on the Schedule of Expenditures of Federal Awards included in this report. There are no audit recommendations.

The state continues to experience funding issues related to its retirement systems, the Highway Patrol Officers' Retirement System (HPORS), Game Wardens' & Peace Officers' Retirement System (GWPORS), the Public Employees' Retirement System - Defined Benefit Retirement Plan (PERS-DBRP), and Teachers' Retirement System (TRS) were not actuarially sound, which is considered material noncompliance with the Montana Constitution as it requires plans to be funded on an actuarially sound basis. The systems amortize in 40 years, 72 years, 38 years, and 31 years, respectively. The maximum allowable amortization period is 30 years, as defined by state law and the Teachers' Retirement Board policy. This noncompliance along with a significant deficiency related to internal controls over the investment note disclosures in Note 3 is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, and is further addressed in the Independent Auditor's Report.

Department of Administration and Governor's Office officials reviewed the contents of this report. The Department of Administration's response is on page B-1. The response from the Governor's Office is on page B-2.

We thank the Department of Administration's director, the State Financial Services Division staff, and the Governor's Office staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Elected, Appointed, and Administrative Officials

State of Montana Steve Bullock, Governor

Department of Administration John Lewis, Director

State Financial Services Division
Cheryl Grey, CPA, Administrator

State Accounting Bureau
Cody Pearce, CPA, State Accountant

State Accounting Financial Reporting

Kristin Reynolds, CPA, Manager

Ilia Balsley, Accountant

Drew Bisenius, CPA, Accountant

Anthony Cacace, Accountant

Courtney Cozzie, Accountant

Wenruizi Koch, CPA, Accountant

Governor's Office **Office of Budget and Program Planning**

Tom Livers, Director (as of September 2018)

Dan Villa, Director (through September 2018)

Sonia Powell, CPA, Single Audit Coordinator

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Montana Legislative Audit Division

Financial Audit

State of Montana

For the Fiscal Year Ended June 30, 2018

January 2019 17-01B Report Summary

From fiscal year 2017 to fiscal year 2018, the ending fund balance in the General Fund increased from $66.9 million to $199.3 million. Of the $199.3 million, Montana had approximately $186.7 million of unassigned fund balance, which is the amount not already earmarked for a specific use. This represents an increase of $138.7 million in the unassigned amount from June 30, 2017. Overall, total General Fund tax revenues increased for natural resource, corporate income and individual income tax categories. There were also increases in transfers into the General Fund due to the 2017 Special Legislative Session, including a $45.7 million transfer into the Budget Stabilization Reserve Fund during fiscal year 2019. General fund expenditures related to public safety, health and human services, education, and natural resources decreased as a result of the 2017 Special Legislative Session. This, and other information relevant to understanding the state's financial health, are contained in this audit report.

Context

This set of financial statements provides legislators and taxpayers with a summary of the state's overall financial position as of June 30, 2018, as well as financial information on all operations and activities of state government for the fiscal year then ended. The General Fund is used to account for all governmental financial resources except those required to be accounted for in another fund. The General Fund and Federal Special Revenue Fund account for approximately 82 percent of the state's governmental revenue and expenditure activity. The health & human services and education categories account for approximately 32 percent of the state's governmental expenditures.

The Department of Administration (department) prepares the basic financial statements (BFS) by consolidating every state agency's financial data into an annual financial report. The financial data is derived from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) with adjustments. Adjustments are made to present the financial activity in accordance with generally accepted accounting principles and include some of the following: correcting errors identified in agency audits, preparing the notes to the financial statements, and eliminating internal balances that roll together for presentation purposes.

The financial section of this report consists of the BFS, along with note disclosures that contain a substantial amount of information to help the reader understand the financial statements. There is a subsequent event disclosure which provides information related to events that occurred after the date of the financial statements.

The Governor's Office of Budget and Program Planning prepares the Schedule of Expenditures of Federal Awards (SEFA). The SEFA reports total federal grant expenditures of approximately $3.9 billion. Federal assistance transferred from a state agency or university to a nonstate agency, such as a city, county, tribal government, or nonprofit organization, is also shown on the SEFA.

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Results

Our audit work included obtaining and evaluating the results of completed agency audits. We also analyzed financial data, including testing adjustments and corrections to the accounting records, and reviewed the financial statements and notes to determine whether they are supported. We determined whether the SEFA was reasonable in relation to the amounts presented in the BFS. There were no prior audit recommendations, and this report contains no current audit recommendations.

We issued an unmodified opinion on each of the eleven opinion units included in the BFS, as described in the Independent Auditor's Report on page A-5. The state continues to experience funding issues related to its retirement systems. In fiscal year 2018, the Highway Patrol Officers' Retirement System, Game Wardens' & Peace Officers' Retirement System, the Public Employees' Retirement System - Defined Benefit Retirement Plan, and the Teachers' Retirement System were not actuarially sound. The information disclosed in the Public Employee's Retirement Board audit report (18-08A) and Teachers' Retirement System audit report (18-09A) are considered material noncompliance with the Montana Constitution, which requires plans to be funded on an actuarially sound basis. The systems amortize in 40 years, 72 years, 38 years, and 31 years, respectively. The maximum allowable amortization period is 30 years, as defined by state law and the Teachers' Retirement Board policy. This noncompliance along with a significant deficiency related to internal controls over the investment note disclosures in Note 3 is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, and is further addressed in the Independent Auditor's Report.

Chapter I – Introduction

Objectives and Summary of Results

We conducted a financial audit of the state of Montana's basic financial statements (BFS) for the fiscal year ended June 30, 2018. The objectives of the audit were to:

1. Express opinions on the fair presentation of the state's basic financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and an opinion on the state's Schedule of Expenditures of Federal Awards in relation to the state's basic financial statements.
2. Obtain an understanding of the internal control structures to the extent necessary to support the audit of its financial statements and, where necessary, make recommendations for improvement in the management and internal controls.
3. Determine compliance with selected, applicable laws and regulations.

Per §17-2-110, MCA, the Department of Administration (department) must consolidate every state agency's financial data into an annual financial report. The department personnel prepared the financial statements based on accounting information from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) with adjustments. Adjustments are made to present the financial activity in accordance with GAAP and include some of the following: correcting errors identified in our agency audits, preparing the notes to the financial statements, and eliminating internal balances that roll together for presentation purposes.

In order to address the objectives above, we focused our audit efforts on analyzing financial data, including testing adjustments and corrections to the accounting records, and reviewing the financial statements and notes to determine whether they were supported. We also obtained and evaluated the results of completed agency audits. We determined whether the Schedule of Expenditures of Federal Awards (SEFA) was reasonable in relation to the amounts presented in the BFS.

We issued an unmodified opinion on each of the eleven opinion units included in the BFS, as described in the Independent Auditor's Report on page A-5. We added a few Emphasis of Matter paragraphs, which do not effect the opinion, however one relates to the implementation of the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Other Postemployment Benefit (OPEB) liability decreased by approximately $245 million, and contributed to the increased financial position. This means the reader can rely on the information presented in the report. In addition, we issued an unmodified in-relation-to opinion on the SEFA included in this report.

The Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* includes a material weakness and significant deficiency related to internal controls over financial reporting of the Board of Investment's Enterprise Fund Economic Development Bond activity and the investment note disclosures in Note 3. It also includes noncompliance with state law and the Montana Constitution related to the state's retirement system plans. There were no prior audit recommendations, and this report contains no current audit recommendations.

Report Organization

The Independent Auditor's Report is on page A-5, followed by the Management's Discussion and Analysis, the basic financial statements, notes to the financial statements, the Budgetary Comparison Schedule, Pension Plan Information, Other Postemployment Benefits Plan Information, and accompanying notes. The Schedule of Expenditures of Federal Awards begins on page A-199 and the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* is on page A-1.

Independent Auditor's Report, Basic Financial Statements, Required Supplementary Information and Schedule of Expenditures of Federal Awards

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the state of Montana's basic financial statements, and have issued our report thereon dated December 21, 2018. Our report includes a reference to other auditors who audited the financial statements of the Montana State University component units and the University of Montana component units, as described in our report on the state of Montana's financial statements. The financial statements of the Montana State University component units and the University of Montana component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these component units.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the state of Montana's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the state of Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of the state of Montana's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below for the financial reporting of the Board of Investment's Enterprise Fund Economic Development Bond activity to be a material weakness.

The Board of Investment's internal controls over financial reporting were not sufficient to ensure complete and accurate Statement of Cash Flows financial reporting, in accordance with generally accepted accounting principles. This control deficiency is associated with the Economic Development Bonds major fund and the portion of the Business-Type Activities attributed to this activity.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

The Board of Investment's internal controls over financial reporting were not sufficient to ensure complete and accurate financial reporting, in accordance with generally accepted accounting principles. This control deficiency is associated with the investment note disclosures in Note 3, as compiled by the Department of Administration State Financial Services Division.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of Montana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

The Montana Public Employees' Retirement Board administers eight defined benefit retirement plans. The Montana Constitution and state law require all retirement systems to be actuarially sound. The Highway Patrol Officers' Retirement System, Game Wardens' and Peace Officers' Retirement System, and Public Employees' Retirement System–Defined Benefit Retirement Plan were not actuarially sound at June 30, 2018, because they amortize in 40 years, 72 years, and 38 years, respectively. The maximum allowable amortization period is 30 years, as defined by state law.

The Teachers' Retirement Board (Board) administers one defined-benefit retirement plan that provides retirement services to individuals employed as teachers, administrators, and in other professional and skilled positions employed in public education in Montana. The Montana Constitution requires all

retirement systems to be actuarially sound. The retirement system is not actuarially sound at June 30, 2018, because it amortizes in 31 years. The maximum allowable amortization period is 30 years, as defined by Board policy.

State of Montana's Response to Findings
The state of Montana's response to the findings identified in this report are described in the separately issued Board of Investment audit report (18-04A), Public Employees' Retirement Administration audit report (18-08A), Teachers' Retirement System audit report (18-09A), and on page B-1 of this report. The state of Montana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the state of Montana's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 21, 2018

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2018, and the related notes which collectively comprise the state of Montana's basic financial statements, as follows:

- Statement of Net Position
- Statement of Activities
- Balance Sheet – Governmental Funds
- Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
- Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities
- Statement of Fund Net Position – Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
- Statement of Cash Flows – Proprietary Funds
- Statement of Fiduciary Net Position – Fiduciary Funds
- Statement of Changes in Fiduciary Net Position – Fiduciary Funds

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State University (MSU) component units and the

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University of Montana (UM) component units, which represents 16.37 percent, 42.63 percent, and 18.78 percent, respectively of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the university component units, are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the MSU and UM component units were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the state of Montana's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the state of Montana's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	**Type of Opinion**
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
General Fund	Unmodified
State Special Revenue Fund	Unmodified
Federal Special Revenue Fund	Unmodified
Land Grant	Unmodified
Coal Severance Tax	Unmodified
Unemployment Insurance	Unmodified
Economic Development Bonds	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Aggregate Remaining Fund Information	Unmodified

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities and Business-Type Activities, General Fund, State Special Revenue Fund, Federal Special Revenue Fund, Land Grant, Coal Severance Tax, Unemployment Insurance and Economic Development Bonds major funds, and the Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information of the state of Montana, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2B and Note 7 to the financial statements, in fiscal year 2018, the state of Montana adopted new accounting guidance contained in Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

As discussed in Note 3, in fiscal year 2018, the Montana Board of Investments elected to change its method of valuing cash equivalents, from fair value to cost. While the pool participant financial activity reflected in the state's basic financial statements are not affected by this change, the investment pool and Economic Development Bond fair value disclosures presented in Note 3 cover significantly fewer assets as a result of this change. Our opinions are not modified with respect to this matter.

As discussed in Note 19 to the financial statements, at June 30, 2018, the Highway Patrol Officers' Retirement System, Game Wardens' and Peace Officers' Retirement System, and Public Employees' Retirement System–Defined Benefit Retirement Plan were not actuarially sound at June 30, 2018, as required by the Montana Constitution because they amortize in 40 years, 72 years, and 38 years, respectively. The maximum allowable amortization period is 30 years, as defined by state law. Our opinions are not modified with respect to this matter.

As discussed in Note 19 to the financial statements, at June 30, 2018, the Teachers' Retirement System is not actuarially sound at June 30, 2018, as required by the Montana Constitution because it amortizes in 31 years. The maximum allowable amortization period is 30 years, as defined by the Teachers' Retirement Board policy. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Pension Plan Information, the Other Postemployment Benefits Plan Information (OPEB), and the Risk Management Trend Information, and the related notes, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the state of Montana's basic financial statements as a whole. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the state of Montana's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana (State) provides this *Management's Discussion and Analysis* of the State of Montana's basic financial statements included in the Comprehensive Annual Financial Report (CAFR). This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2018. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS

Government-wide

The assets and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2018 by $8.9 billion compared with $8.2 billion at the end of fiscal year 2017, representing a 7.6% increase in net position. Component units reported net position of $2.1 billion at the end of fiscal year 2018 compared to $1.9 billion at the end of fiscal year 2017, representing a 7.6% increase in net position. More detail is provided in the financial statement overview below.

Fund Level

As of the close of fiscal year 2018, the State's governmental funds reported combined ending fund balances of $4.0 billion compared with $3.9 billion at fiscal year 2017. Of the 2018 balance, $1.6 billion is not in spendable form, primarily as permanent fund principle. Thus, $2.4 billion is available for spending. The fund balance in spendable form is segregated by constraint as follows: $1.1 billion restricted, $1.1 billion committed, $8.6 million assigned and $176.6 million unassigned. This represents a $100.1 million (2.6%) increase in total fund balance. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

The State's business-type activity funds reported net position at the close of fiscal year 2018 in the amount of $431.5 million compared with fiscal year 2017 net position of $395.0 million. Of the 2018 business-type activity net position, $21.4 million was reported as net investment in capital assets. Net position of $410.1 million was in spendable form with $12.5 million unrestricted and $397.6 million restricted to expenditure for a specific purpose. This represents a $34.1 million (9.1%) increase in spendable net position from the fiscal year 2017 balance of $376.0 million. These changes are discussed in more detail in the financial analysis of the State's major funds presented below.

Long-term Debt

The State's total governmental activity bonds and notes payable for governmental activities decreased by $34.1 million, from $193.4 million in fiscal year 2017 to $159.3 million, a 17.6% decrease in fiscal year 2018.

Further detail relating to the State's long-term debt is provided in *notes to the financial statement*'*s* Note 11.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) *government-wide financial statements*, (2) *fund financial statements*, and (3) *notes to the financial statements*. The report also contains additional required supplementary information, which includes budgetary schedules, pension and other post employment benefits plan information, and risk management trends. These components are described below:

Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the State – the g*overnment-wide financial statements* and the *fund financial statements***.** These financial statements also include the

notes to the financial statements, which provide further detail and information related to the balances of the financial statements.

Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. In other words, they follow methods that are similar to those used by most businesses, including all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements: The *Statement of Net Position* and the *Statement of Activities*, as defined below.

The *Statement of Net Position* presents all of the government's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases or decreases in the State's net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information related to the government's net position changes during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state activities. These three types of activities are as follows:

Governmental Activities – Activities mostly supported by taxes and intergovernmental revenues, including federal grants. Most services normally associated with state government fall into this category including: education (support for both K-12 public schools and higher education), general government, health and human services, natural resources, public safety, and transportation.

Business-type Activities – Functions normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bonds Program, which assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – Operations for which the State has financial accountability, but have certain independent qualities as well. In order to be considered component units, these entities must be legally separate to the extent that they may sue, or be sued, in their own right. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State's component units consist of one financing authority, one housing board, one nonprofit independent public corporation, and two universities.

Fund Financial Statements - Reporting the State's Major Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted individually. The three categories of funds are as follows:

Governmental Funds – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the

balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund, the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Like the government-wide statements, proprietary fund statements utilize full accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. Whereas, internal service funds report activities that provide supplies and services to the State's other programs and activities.

Fiduciary Funds – Resources held for the benefit of parties outside state government are accounted for in fiduciary funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary fund statements use the full accrual basis of accounting.

Notes to the Financial Statements

The *notes to the financial statements* provide additional information that is essential for a full understanding of the *government-wide* and the *fund financial statements*. The *notes to the financial statements* can be found immediately following the fiduciary fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section contains a budgetary comparison schedule which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund and major special revenue funds as presented in the governmental *fund financial statements*. Required supplementary information also includes pension and other post employment benefits plan information, as well as additional risk management trend data.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position increased from the last fiscal year as reflected in the $627.4 million increase (7.6%) in net position. This improvement resulted from a continued economic growth, particularly related to tax revenue, within the State. Additionally, $245.0 million of the increase is related to the implementation of GASB Statement No. 75 (GASB 75) and the restatement of total OPEB liability.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (government and business-type activities) totaled $8.9 billion at the end of fiscal year 2018. Net position of the both governmental and business-type activities increased by $590.9 million (7.5%) and $36.5 million (9.2%), respectively. These changes are explained in detail in the major fund analysis below.

A portion of the State's net position reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net position.

At the end of the current fiscal year, the State reported positive balances in net investment in capital assets and restricted net position categories, along with a negative balance in the unrestricted category of net position, for both the governmental activities and the primary government as a whole. The negative unrestricted net position is primarily due to net pension liability. GASB Statements No. 68 and 71, related to pension liabilities and other balance sheet components, were implemented in fiscal year 2015 and are contributing factors to the negative net position. The State also reported positive balances for all categories of net position for the business-type activities.

Net Position
June 30,
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	**2018**	**2017**	**2018**	**2017**	**2018**
Current and other assets	$ 5,143,823	$ 5,262,514	$ 549,267	$ 582,328	$ 5,693,090	$ 5,844,842
Capital assets	5,991,964	6,190,693	19,400	21,627	6,011,364	6,212,320
Total assets	11,135,787	11,453,207	568,667	603,955	11,704,454	12,057,162
Deferred outflows of resources	342,370	372,886	3,120	4,011	345,490	376,897
Long-term liabilities						
Due in more than one year	2,513,940	2,279,169	27,252	23,527	2,541,192	2,302,696
Other liabilities	1,055,609	1,029,316	149,298	152,122	1,204,907	1,181,438
Total liabilities	3,569,549	3,308,485	176,550	175,649	3,746,099	3,484,134
Deferred inflows of resources	55,436	73,544	229	831	55,665	74,375
Net investment in capital assets	5,873,003	6,088,211	18,986	21,395	5,891,989	6,109,606
Restricted	2,951,964	2,998,805	367,734	397,588	3,319,698	3,396,393
Unrestricted	(971,795)	(642,952)	8,288	12,503	(963,507)	(630,449)
Total net position	$ 7,853,172	$ 8,444,064	$ 395,008	$ 431,486	$ 8,248,180	$ 8,875,550

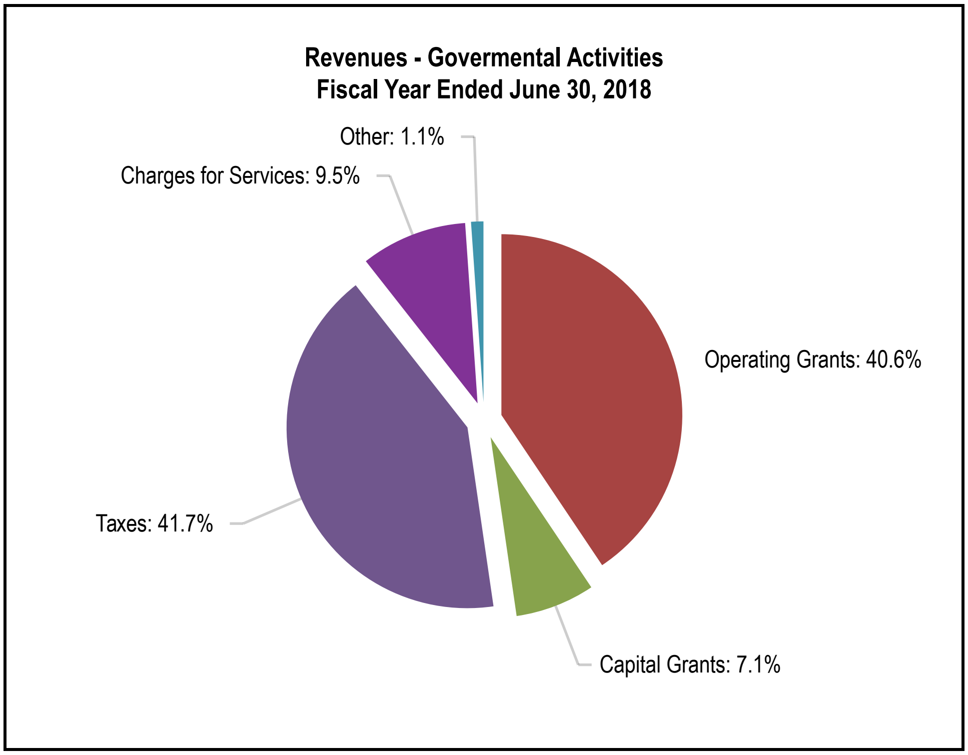
The following condensed financial information was derived from the government-wide Statement of Activities, and reflects how the State's net position changed during the fiscal year:

Changes in Net Position
For Fiscal Year Ended June 30,
(expressed in thousands)

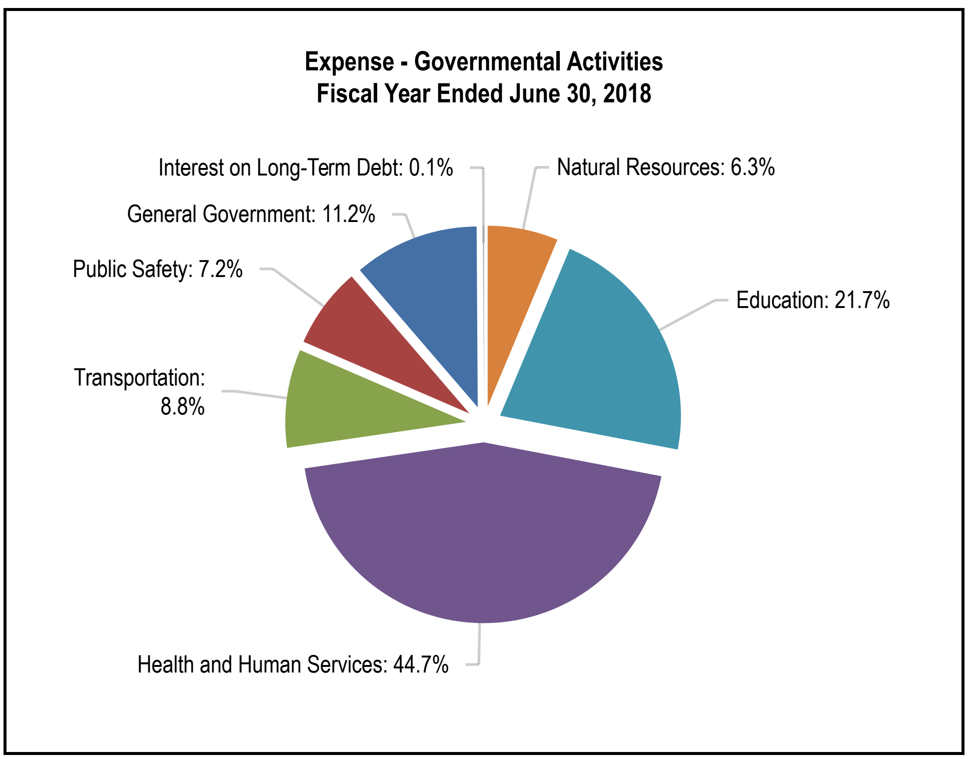
	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	**2018**	**2017**	**2018**	**2017**	**2018**
Revenues:						
Program revenues						
Charges for services	$ 571,927	$ 594,814	$ 389,279	$ 404,890	$ 961,206	$ 999,704
Operating grants	2,506,711	2,555,898	60,219	65,885	2,566,930	2,621,783
Capital grants	434,860	447,018	604	685	435,464	447,703
General revenues						
Taxes	2,352,133	2,625,077	27,958	28,846	2,380,091	2,653,923
Other	93,077	69,101	3,708	4,019	96,785	73,120
Total revenues	5,958,708	6,291,908	481,768	504,325	6,440,476	6,796,233
Expenses:						
General government	688,798	674,329			688,798	674,329
Public safety	454,194	429,760			454,194	429,760
Transportation	484,214	527,927			484,214	527,927
Health and human service	2,668,273	2,681,151			2,668,273	2,681,151
Education	1,344,121	1,299,423			1,344,121	1,299,423
Natural resources	295,853	379,525			295,853	379,525
Interest on long-term debt	7,484	6,743			7,484	6,743
Unemployment Insurance			117,788	113,843	117,788	113,843
Liquor Stores			83,313	86,118	83,313	86,118
State Lottery			43,377	45,896	43,377	45,896
Economic Dev Bonds			1,851	2,648	1,851	2,648
Hail Insurance			1,696	576	1,696	576
Gen Govt Services			72,489	73,539	72,489	73,539
Prison Funds			8,140	9,130	8,140	9,130
MUS Group Insurance			81,051	88,912	81,051	88,912
MUS Workers Comp			2,786	2,738	2,786	2,738
Total expenses	5,942,937	5,998,858	412,491	423,400	6,355,428	6,422,258
Increase (decrease) in net position before transfers	15,771	293,050	69,277	80,925	85,048	373,975
Transfers	46,141	48,854	(46,141)	(48,854)	—	—
Change in net position	61,912	341,904	23,136	32,071	85,048	373,975
Net position, beg of year (as adjusted)	7,791,260	8,102,160	371,872	399,415	8,163,132	8,501,575
Net position, end of year	$ 7,853,172	$ 8,444,064	$ 395,008	$ 431,486	$ 8,248,180	$ 8,875,550

Governmental Activities

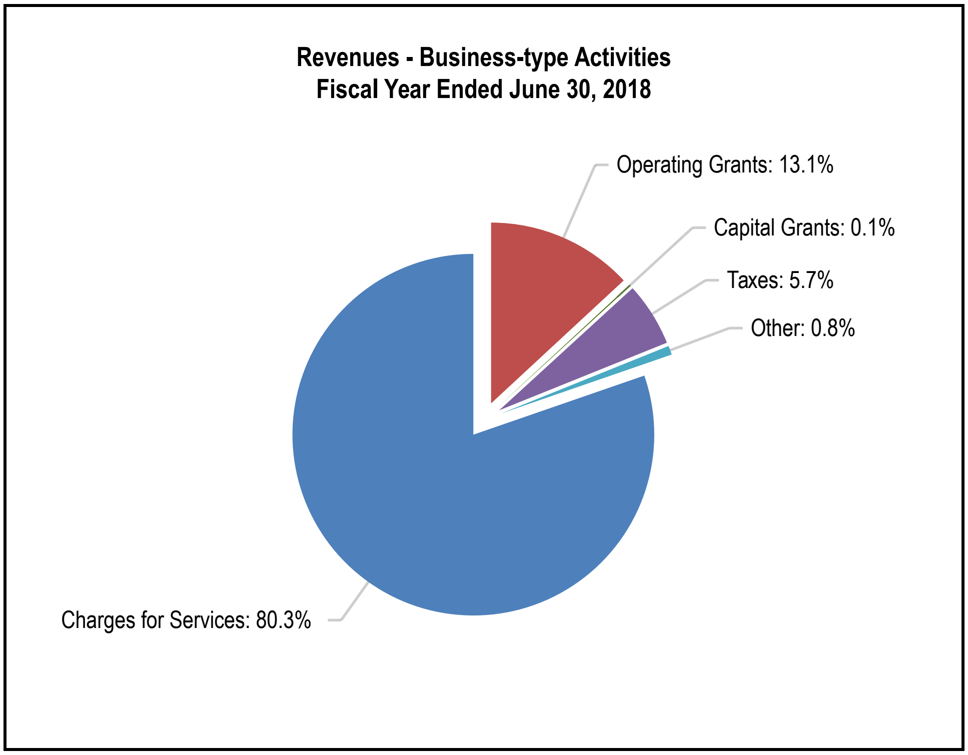
The following chart depicts revenues of the governmental activities for the fiscal year:



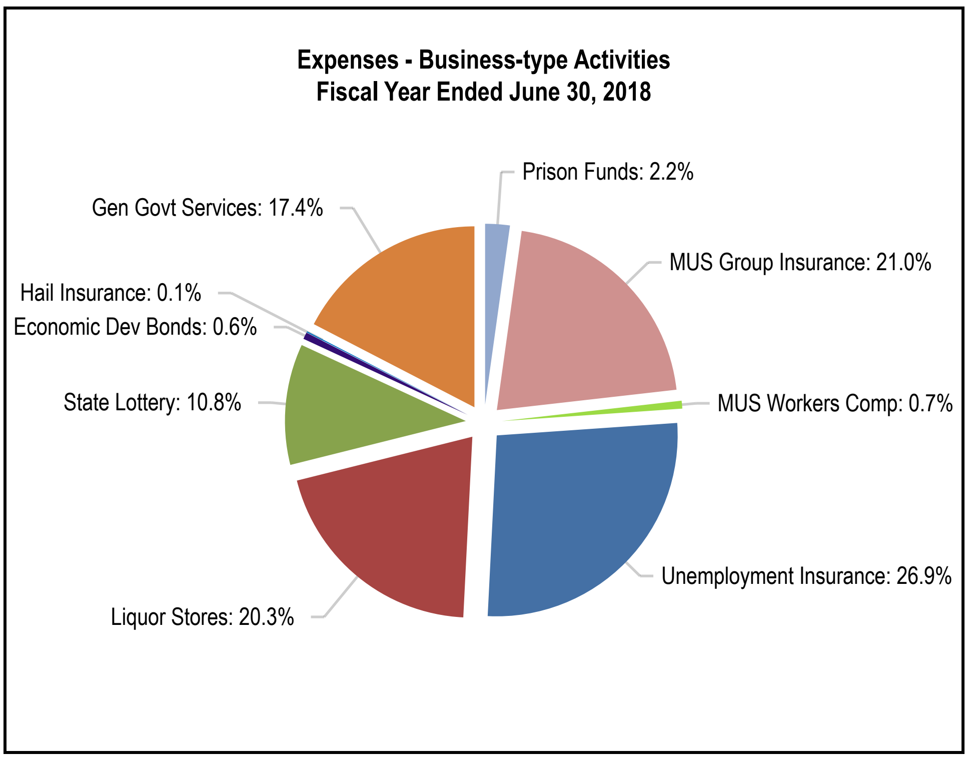
The following chart depicts expenses of the governmental activities for the fiscal year:



Business-type Activities
The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of $4.0 billion. Of this total, $2.4 billion (59.4%) constitutes spendable fund balance and $1.6 billion (40.6%) is classified as non-spendable. The analysis of the following major funds, providing the majority of the fund balance for the government, follows.

General Fund Revenues and Expenditures
The General Fund is the chief operating fund of the State. For fiscal year 2018, the total fund balance of the General Fund was reported at approximately $199.3 million. Of this balance $4.6 million is non-spendable. The remaining $194.7 million is spendable with $8.0 million assigned and $186.7 million unassigned. This represents 8.2% of the $2.4 billion spendable governmental fund balances for all governmental funds. Of the assigned fund balance, $8.0 million relates to outstanding encumbrances at the end of the fiscal year. Further detail on the breakdown of fund balance for the General Fund is provided in Note 14 – Major Purpose Presentation.

Total fund balance increased by $132.3 million when compared to the previously reported fund balance of $67.0 million. Changes in both expenditures and revenues are discussed in detail below. The 2017 Special Legislative Session projected $69.4 million General Fund unassigned fund balance for fiscal year 2018, without regard to a fund balance spend down in fiscal year 2019.

General Fund Revenues – Total General Fund revenues were $2.3 billion for fiscal year 2018 (lower than legislative estimation), a 9.7% increase from the $2.1 billion reported in 2017 (which were also lower than legislative estimation). Fiscal year 2018 tax revenue increased by 10.2% in total over 2017, with natural resource and corporate income tax collections up 21.2% and 24.9%, respectively. Individual income tax collections increased by 10.6%. Transfers also increased $68.6 million (92.3%) due to the 2017 Special Legislative Session activity. Other noted increases in revenues included investment earnings, contributions/premiums, and federal revenues.

General Fund Expenditures – Total General Fund expenditures for fiscal year 2018 decreased by $94.9 million (4.1%). This decrease in expenditures occurred in the public safety, health and human services, education and natural resource functions as follows:

- Public safety expenditures decreased by $7.7 million (2.4%)
- Health and human services expenditures decreased by $21.2 million (3.9%)
- Education expenditures decreased by $50.7 million (4.8%)
- Natural resources expenditures decreased by $6.3 million (16.8%)

Transfers out increased by $13.8 million (30.5%) to $59.2 million in 2018, mostly attributable to the increase in fire suppression transfers. During the 2017 Special Legislative Session, HB 2 revisions were adopted, which called for $9.4 million cuts to judicial, law enforcement, and justice, along with $49.2 million in cuts to health and human services, $6.3 million cuts to education, and $4.6 million cuts for natural resources and transportation. These cuts help to explain the majority of the decrease in General Fund expenditures across the board.

The General Fund's actual revenues and expenditures in comparison to budgeted revenues and expenditures is provided in more depth on the Budgetary Comparison Schedule within the Required Supplementary Information section of this report. The same level of detail used to report the actual revenues and expenditures is not readily available for all budgetary revenues and expenditures, which may cause some variances.

General Fund Expenditure Budget Reversions
Fund balances are not reserved for reverted appropriations. For fiscal year 2018, general fund appropriations that reverted to 2019 were $9.4 million.

The Department of Administration had unspent appropriations of $1.1 million, these were attributable to supplemental transfers, banking charges, and other operational costs.

The Department of Public Health and Human Services had unspent appropriations of $6.0 million related to Medicaid savings and other operational costs.

The Department of Justice and the School for the Deaf and Blind had unspent appropriations of $462.6 thousand and $467.6 thousand respectively, related to operational transfers and education costs.

The remaining unspent appropriation of $1.4 million was attributable to miscellaneous reversions across other agencies.

State Special Revenue Fund
The fund balance of the State Special Revenue Fund increased by $19.6 million to $1.6 billion . Revenues increased by $66.3 million (7.3%) and expenditures increased $31.8 million (3.2%), for fiscal year 2018. The largest increases in revenues are attributable to an increase in natural resource and fuel tax collections, along with licenses and permits. The largest increases in expenditures are attributable to general government and natural resource related expenditures. Other financing sources such as transfers in and out both increased due to the 2017 Special Legislative Session. The general increase in both fuel and natural resource taxes along with fund balance is due to the steady crude oil increase over the prior year. This resulted in higher revenues than in the previous year when including the 2017 Special Legislative Session increase in the per gallon fuel tax.

Federal Special Revenue Fund
The fund balance of the Federal Special Revenue Fund decreased by $22.1 million (183.4%) to the balance of negative $10.1 million. Revenues and expenditures increased by $45.0 million (1.6%) and $67.8 million (2.4%) respectively, for the fiscal year 2018. Revenue increases are attributable to increases in federal program revenue, expenditure increases are attributable to increases in health and human services, public safety, and natural resources related expenditures. The natural resources expenditure increase of 35% is attributable to the 2017 fire season which was the most expensive fire season in Montana's history.

Coal Severance Tax Permanent Fund
The fund balance of the Coal Severance Tax Permanent Fund decreased by $4.3 million (0.4%) to $1.1 billion. Revenue increased by $2.6 million (7.0%) to $39.3 million, primarily due to an increase in international coal exports which increased natural resource taxes $7.5 million. Thus an increase in transfers out, which increased by $1.2 million (2.7%), and a decrease in investment earnings of $4.8 million helped to offset the increase in revenue and led to the decrease in fund balance.

Land Grant Permanent Fund
The fund balance of the Land Grant Permanent Fund decreased by $15.3 million (2.1%) to $710.2 million. Total Land Grant revenue was $65.2 million, transfers out were $62.1 million, and the fund purchased land for $12.9 million. which lead to the decrease in fund balance.

Unemployment Insurance Enterprise Fund
Net position restricted for unemployment compensation increased by $15.6 million (5.2%). The increase in net position reflects the continued impact of low unemployment throughout fiscal year 2018 accompanied by an increase in the taxable wage base from $31.4 thousand to $32.0 thousand in 2018.

Economic Development Bonds Enterprise Fund
Net position increased by 0.5% to $5.1 million in fiscal year 2018. Financing income revenue increased $637.0 thousand, while expenses from interest expense increased $665.0 thousand. Overall revenues and expenditures increased 45.2% and 43.2% which kept revenues almost even with expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2018, amounted to $8.5 billion, with related accumulated depreciation of $2.3 billion, leaving a net book value of $6.2 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, intangible assets, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was $201.0 million or 3.4% in terms of net book value. Most increases in capital expenditures were seen in construction, or reconstruction, of roads

and bridges. Additional information relating to the State's capital assets can be found in Note 5 of the *notes to the financial statements*.

Debt Administration

Montana continues to receive excellent general obligation bond ratings from Moody's Investor Service (Aa1), Standard and Poor's Corporation (AA), and Fitch Ratings (AA+), which remain unchanged from 2017.

State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature, or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt decreased from $98.6 million at June 30, 2017, to $84.5 million at June 30, 2018. There is cash available, of $7.4 million at the end of fiscal year 2018, in debt service funds to service general obligation debt.

The below table contains the ratio of general obligation debt and total State debt to personal income and to the amount of debt per capita:

	Amount *(in thousands)*	Percentage of Personal Income (1)	State Debt Per Capita (2)
General obligation debt	$ 84,460	0.14 %	$ 65
Total State debt (3)	$ 164,131	0.34 %	$ 156

(1) Based on personal income for calendar year 2017.
(2) Based on estimated 2017 Montana population.
(3) Based on total of general obligation bonds, special revenue bonds, notes payable and lease/installment purchase payable for the percentage and state debt per capita.

More detailed information regarding the State's long-term obligations is provided in Note 11 of the notes to the financial statements and in the statistical tables.

ECONOMIC CONDITION AND OUTLOOK

Montana's primary economic base remains concentrated in agriculture, mining, manufacturing, and nonresident travel. Per the 2018 Labor Day Report issued by the Montana Department of Labor and Industry, Montana had real wage gains of 1.1% in 2018, which was faster than the rate of inflation. Montana's unemployment rate has continued to remain low and in the last year the national rate joined Montana with a rate around 4.0%. Montana added roughly 4,600 jobs in 2017, for a growth rate of 1.0%. Montana had an estimated 1,050,493 population as of July 1, 2017. The Montana labor market has total nonfarm workers of 479,800 in September 2018 as compared to 475,200 in August 2017. Montana's real GDP growth over the 2007 to 2017 time-frame outpaced the nation with an average of roughly 1.3% per year to real GDP. A more in-depth analysis of the State's overall financial position can be found in the transmittal letter of this report.

During to fiscal year-end 2018, a special session of the Legislature was called to order to address an anticipated General Fund deficit for the budget period ended June 30, 2019. More information, related to the financial impacts are provided in the letter of transmittal.

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is within 30 years. As of June 30, 2018, the Game Warden & Peace Officers' Retirement System (GWPORS), the Highway Patrol Officers' Retirement System (HPORS), the Public Employees' Retirement System - Defined Benefit Retirement System (PERS-DBRP), and the Teachers' Retirement System (TRS) were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in 30 years or less as of the fiscal year ended June 30, 2018.

The actuarial condition of these retirement plans is disclosed in greater detail in Note 6 of the financial statements. The unfunded actuarial liability of these plans is long-term in nature and does not translate into an inability of the plans to meet their current obligations in the near future.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, Statewide Accounting Bureau, Room 255 Mitchell Building, PO Box 200102, Helena, MT 59620.

STATEMENT OF NET POSITION
JUNE 30, 2018
(amounts expressed in thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash/cash equivalents (Note 3)	$ 1,268,555	$ 442,364	$ 1,710,919	$ 476,816
Receivables (net) (Note 4)	486,051	46,776	532,827	182,680
Due from primary government	—	—	—	1,183
Due from other governments	378,733	116	378,849	27,925
Due from component units	3,395	2,993	6,388	271
Internal balances	4,764	(4,764)	—	—
Inventories	28,369	4,852	33,221	4,664
Advances to component units	15,435	20,736	36,171	—
Long-term loans/notes receivable	486,893	39,365	526,258	493,184
Equity in pooled investments (Note 3)	2,266,228	14,771	2,280,999	47,127
Investments (Note 3)	246,443	11,795	258,238	2,145,398
Securities lending collateral (Note 3)	31,553	206	31,759	21,655
Net pension asset (Note 6)	35,855	—	35,855	—
Other assets	10,240	3,118	13,358	94,238
Depreciable capital assets and infrastructure, net (Note 5)	4,237,224	8,785	4,246,009	797,969
Land and nondepreciable capital assets (Note 5)	1,953,469	12,842	1,966,311	130,147
Total assets	11,453,207	603,955	12,057,162	4,423,257
DEFERRED OUTFLOWS OF RESOURCES (Note 4)	372,886	4,011	376,897	78,926
LIABILITIES				
Accounts payable (Note 4)	744,307	23,717	768,024	105,337
Lottery prizes payable	—	3,801	3,801	—
Due to primary government	—	—	—	6,388
Due to other governments	35,892	83	35,975	104
Due to component units	1,183	—	1,183	271
Due to pension trust funds	32,014	—	32,014	—
Advances from primary government	—	—	—	36,171
Unearned revenue	22,017	2,197	24,214	99,066
Amounts held in custody for others	18,825	30	18,855	16,761
Securities lending liability (Note 3)	31,553	206	31,759	21,655
Other liabilities	5,955	1,855	7,810	22,560
Short-term debt (Note 11)	—	105,110	105,110	—
Long-term liabilities (Note 11):				
Due within one year	137,570	15,123	152,693	191,241
Due in more than one year	399,938	6,127	406,065	1,673,109
Net pension liability (Note 6)	1,830,301	16,458	1,846,759	222,792
Total OPEB liability (Note 7)	48,930	942	49,872	41,995
Total liabilities	3,308,485	175,649	3,484,134	2,437,450
DEFERRED INFLOWS OF RESOURCES (Note 4)	73,544	831	74,375	11,375

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
NET POSITION				
Net investment in capital assets	$ 6,088,211	$ 21,395	$ 6,109,606	$ 650,844
Restricted for:				
General government	23,409	—	23,409	—
Transportation	58,959	—	58,959	—
Natural resources	531,240	—	531,240	—
Public safety	230,682	—	230,682	—
Education	6,060	—	6,060	—
Funds held as permanent investments:				
Nonexpendable	1,608,361	—	1,608,361	412,779
Expendable	540,094	—	540,094	—
Unemployment compensation	—	314,210	314,210	—
Montana Board of Housing	—	—	—	153,518
Other purposes	—	83,378	83,378	229,878
Unrestricted	(642,952)	12,503	(630,449)	606,339
Total net position	$ 8,444,064	$ 431,486	$ 8,875,550	$ 2,053,358

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE
Primary government:					
Governmental activities:					
General government	$ 674,329	$ 170,447	$ 137,295	$ 1,205	$ (365,382)
Public safety	429,760	175,999	21,614	107	(232,040)
Transportation	527,927	27,319	60,003	429,478	(11,127)
Health and human services	2,681,151	41,916	2,009,235	—	(630,000)
Education	1,299,423	13,972	197,030	1,119	(1,087,302)
Natural resources	379,525	165,161	130,721	15,109	(68,534)
Interest on long-term debt	6,743	—	—	—	(6,743)
Total governmental activities	5,998,858	594,814	2,555,898	447,018	(2,401,128)
Business-type activities:					
Unemployment Insurance	113,843	114,678	13,967	—	14,802
Liquor Stores	86,118	99,059	—	—	12,941
State Lottery	45,896	56,400	—	—	10,504
Economic Development Bonds	2,648	37	2,554	—	(57)
Hail Insurance	576	1,065	22	—	511
Other Service	73,539	25,386	48,198	685	730
Prison Funds	9,130	7,733	—	—	(1,397)
MUS[1] Group Insurance	88,912	100,532	928	—	12,548
MUS[1] Workers Compensation	2,738	—	216	—	(2,522)
Total business-type activities	423,400	404,890	65,885	685	48,060
Total primary government	$ 6,422,258	$ 999,704	$ 2,621,783	$ 447,703	$ (2,353,068)
Component units:					
Montana Board of Housing	$ 20,996	$ 1,516	$ 19,336	$ —	$ (144)
Facility Finance Authority	515	613	2,208	—	2,306
Montana State Fund	227,078	166,768	—	—	(60,310)
Montana State University	584,734	280,592	176,777	5,219	(122,146)
University of Montana	447,609	189,675	150,945	191	(106,798)
Total component units	$ 1,280,932	$ 639,164	$ 349,266	$ 5,410	$ (287,092)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Changes in net position:				
Net (expense) revenue	$ (2,401,128)	$ 48,060	$ (2,353,068)	$ (287,092)
General revenues:				
Taxes:				
Property	293,530	—	293,530	—
Fuel	259,162	—	259,162	—
Natural resource	209,776	—	209,776	—
Individual income	1,304,715	—	1,304,715	—
Corporate income	170,607	—	170,607	—
Other (Note 1)	387,287	28,846	416,133	—
Unrestricted grants and contributions	12,595	233	12,828	111
Settlements	19,794	—	19,794	—
Unrestricted investment earnings	29,241	66	29,307	99,080
Transfers from primary government	—	—	—	228,646
Gain (loss) on sale of capital assets	2,595	11	2,606	328
Miscellaneous	4,876	3,709	8,585	1,085
Contributions to term and permanent endowments	—	—	—	21,373
Transfers between primary government	48,854	(48,854)	—	—
Total general revenues, contributions, and transfers	2,743,032	(15,989)	2,727,043	350,623
Change in net position	341,904	32,071	373,975	63,531
Total net position - July 1 - as previously reported	7,853,172	395,008	8,248,180	1,907,768
Adjustments to beginning net position (Note 2)	248,988	4,407	253,395	82,059
Total net position - July 1 - as adjusted	8,102,160	399,415	8,501,575	1,989,827
Total net position - June 30	$ 8,444,064	$ 431,486	$ 8,875,550	$ 2,053,358

[1]Montana University System

The notes to the financial statements are an integral part of this statement.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	STATE	FEDERAL
ASSETS			
Cash/cash equivalents (Note 3)	$ 242,215	$ 762,741	$ 57,464
Receivables (net)	285,885	120,718	53,234
Interfund loans receivable (Note 12)	72,467	60,222	—
Due from other governments	13,937	408	364,388
Due from other funds (Note 12)	28,839	10,604	2,580
Due from component units	—	1,020	11
Inventories	3,798	21,030	—
Equity in pooled investments (Note 3)	—	353,135	—
Long-term loans/notes receivable	—	458,592	3,899
Advances to other funds (Note 12)	489	39,589	—
Advances to component units	—	7,739	—
Investments (Note 3)	5,759	39,090	1,231
Securities lending collateral (Note 3)	—	4,909	—
Other assets	2,988	5,926	114
Total assets	$ 656,377	$ 1,885,723	$ 482,921
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 258,704	$ 177,751	$ 288,003
Interfund loans payable (Note 12)	—	5,215	125,499
Due to other governments	153	33,474	2,265
Due to other funds (Note 12)	2,355	15,457	1,016
Due to component units	32,031	498	668
Advances from other funds (Note 12)	—	7,660	35,596
Unearned revenue	2,838	20,776	3,054
Amounts held in custody for others	5,848	12,838	13
Securities lending liability (Note 3)	—	4,909	—
Other liabilities	1	824	—
Total liabilities	301,930	279,402	456,114
DEFERRED INFLOWS OF RESOURCES	155,128	5,261	36,876
Fund balances (Note 14):			
Nonspendable	4,614	21,876	57
Restricted	—	1,043,005	—
Committed	—	536,179	—
Assigned	7,998	—	—
Unassigned	186,707	—	(10,126)
Total fund balances	199,319	1,601,060	(10,069)
Total liabilities, deferred inflows of resources, and fund balances	$ 656,377	$ 1,885,723	$ 482,921

The notes to the financial statements are an integral part of this statement.

PERMANENT			
COAL SEVERANCE TAX	LAND GRANT	NONMAJOR	TOTAL
$ 44,507	$ 11,188	$ 57,101	$ 1,175,216
10,469	1,957	6,012	478,275
—	—	—	132,689
—	—	—	378,733
6	—	1,541	43,570
105	—	2,223	3,359
—	—	—	24,828
856,039	697,183	340,464	2,246,821
—	—	24,402	486,893
1,935	—	7,471	49,484
7,697	—	—	15,436
170,882	—	2,870	219,832
11,919	9,707	4,749	31,284
—	—	—	9,028
$ 1,103,559	$ 720,035	$ 446,833	$ 5,295,448
$ —	$ —	$ 2,445	$ 726,903
1,689	6	303	132,712
—	—	—	35,892
1	—	2,183	21,012
—	—	—	33,197
—	—	7,578	50,834
—	—	—	26,668
—	125	—	18,824
11,919	9,707	4,749	31,284
—	—	—	825
13,609	9,838	17,258	1,078,151
—	—	334	197,599
561,938	710,197	334,376	1,633,058
—	—	21,278	1,064,283
528,012	—	72,972	1,137,163
—	—	615	8,613
—	—	—	176,581
1,089,950	710,197	429,241	4,019,698
$ 1,103,559	$ 720,035	$ 446,833	$ 5,295,448

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RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

JUNE 30, 2018

(amounts expressed in thousands)

Total fund balances - governmental funds		$ 4,019,698
Amounts reported for governmental activities in the Statement of Net Position are different due to:		
Capital assets used in governmental activities are not current financial resources and therefore not reported in the governmental funds (Note 5):		
Depreciable capital assets and infrastructure, net	$ 4,237,224	
Land and nondepreciable capital assets	1,953,469	6,190,693
Deferred outflows of resources represent a consumption of net assets that will be reported as an outflow of resources in a future period and therefore are not reported in the governmental funds.		372,886
Other assets not available in the current period and therefore are not reported in the governmental funds:		
Net pension asset		35,855
Long-term receivables		108
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. The assets, deferred outflows of resources, liabilities and deferred inflows of resources of the internal service funds are included in the governmental activities in the Statement of Net Position, excluding internal service funds' capital assets and long-term liabilities reported in specific areas.		129,735
Other liabilities that are not due and payable in the current period and are not reported in the governmental funds.		(12,228)
Deferred inflows of resources represent an acquisition of net assets that will be recognized as an inflow of resources in a future period and therefore are not reported in the governmental funds.		124,056
Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the governmental funds (Note 11):		
Other long-term liabilities	(537,508)	
Net pension liability	(1,830,301)	
Total OPEB liability	(48,930)	(2,416,739)
Total net position - governmental activities		$ 8,444,064

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

		SPECIAL REVENUE	
	GENERAL	STATE	FEDERAL
REVENUES (Note 14)			
Licenses/permits	$ 126,637	$ 220,898	$ —
Taxes:			
Natural resource	86,090	82,085	—
Individual income	1,285,132	—	—
Corporate income	166,393	—	—
Property	277,127	16,403	—
Fuel	—	258,920	—
Other	237,112	146,246	1
Charges for services/fines/forfeits/settlements	35,776	109,846	18,295
Investment earnings	12,805	9,582	447
Securities lending income	1	114	—
Sale of documents/merchandise/property	334	10,000	—
Rentals/leases/royalties	7	1,234	—
Contributions/premiums	5,250	27,471	—
Grants/contracts/donations	10,856	24,274	18
Federal	21,154	9,338	2,768,657
Federal indirect cost recoveries	257	49,007	67,346
Other revenues	400	3,165	516
Total revenues	2,265,331	968,583	2,855,280
EXPENDITURES			
Current:			
General government	350,591	200,367	92,688
Public safety	311,184	89,213	15,824
Transportation	—	220,368	111,201
Health and human services	517,528	160,049	1,997,224
Education	1,007,891	76,112	209,620
Natural resources	31,394	235,021	92,184
Debt service:			
Principal retirement	22	634	32
Interest/fiscal charges	283	355	5
Capital outlay	1,377	56,645	328,856
Securities lending	—	65	—
Total expenditures	2,220,270	1,038,829	2,847,634
Excess of revenue over (under) expenditures	45,061	(70,246)	7,646
OTHER FINANCING SOURCES (USES)			
Inception of lease/installment contract	—	312	—
Insurance proceeds	—	309	—
General capital asset sale proceeds	96	1,805	31
Energy conservation loans	—	1,589	—
Transfers in (Note 12)	142,442	175,712	2,518
Transfers out (Note 12)	(59,155)	(90,735)	(32,381)
Total other financing sources (uses)	83,383	88,992	(29,832)
Net change in fund balances	128,444	18,746	(22,186)
Fund balances - July 1 - as previously reported	66,984	1,581,457	12,078
Adjustments to beginning fund balance (Note 2)	4,625	1,691	39
Fund balances - July 1 - as adjusted	71,609	1,583,148	12,117
Increase (decrease) in inventories	(734)	(834)	—
Fund balances - June 30	$ 199,319	$ 1,601,060	$ (10,069)

The notes to the financial statements are an integral part of this statement.

PERMANENT COAL SEVERANCE TAX	PERMANENT LAND GRANT	NONMAJOR	TOTAL
$ —	$ 1,456	$ —	$ 348,991
31,304	—	9,377	208,856
—	—	—	1,285,132
—	—	—	166,393
—	—	—	293,530
—	—	—	258,920
—	—	1,600	384,959
—	—	10,845	174,762
7,831	2,058	12,035	44,758
189	154	72	530
—	10,519	1,074	21,927
—	50,704	—	51,945
—	—	—	32,721
—	126	—	35,274
—	—	—	2,799,149
—	—	—	116,610
—	—	—	4,081
39,324	65,017	35,003	6,228,538
—	57	99	643,802
—	—	608	416,829
—	—	—	331,569
—	—	372	2,675,173
—	—	24	1,293,647
—	4,227	477	363,303
—	—	31,280	31,968
—	—	7,445	8,088
—	16,057	22,248	425,183
92	76	36	269
92	20,417	62,589	6,189,831
39,232	44,600	(27,586)	38,707
—	—	—	312
—	—	—	309
—	2,269	1	4,202
—	—	—	1,589
656	5	48,203	369,536
(44,189)	(62,135)	(30,758)	(319,353)
(43,533)	(59,861)	17,446	56,595
(4,301)	(15,261)	(10,140)	95,302
1,094,251	725,458	439,356	3,919,584
—	—	25	6,380
1,094,251	725,458	439,381	3,925,964
—	—	—	(1,568)
$ 1,089,950	$ 710,197	$ 429,241	$ 4,019,698

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

(amounts expressed in thousands)

Net change in fund balances - total governmental funds		$ 95,302
Amounts reported for governmental activities in the Statement of Activities are different due to:		
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, these costs are allocated as depreciation expense over the useful life of the capital asset. Capital outlays exceeded depreciation expense in the current year by the following amount (Note 5):		
Capital outlay	$ 425,183	
Depreciation expense and amortization	(221,414)	203,769
Miscellaneous transactions involving capital assets such as sales (gain/loss) and donations are reported in the Statement of Activities, but only proceeds from sales are reported in the governmental funds.		(3,604)
Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		59,056
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual governmental funds. Internal service funds are reported separately from governmental funds in the fund financial statements. In the government-wide statements, internal service funds are included with governmental activities.		(5,511)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. Some expenditures reported in the governmental funds either increase or decrease items reported in the Statement of Net Position.		(7,108)
Change in net position - governmental activities		$ 341,904

The notes to the financial statements are an integral part of this statement.

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	$ 311,612	$ 24,085	$ 106,667	$ 442,364	$ 93,339
Receivables (net)	4,118	10,938	31,720	46,776	7,665
Interfund loans receivable (Note 12)	—	—	—	—	35
Due from other governments	22	—	94	116	—
Due from other funds (Note 12)	—	3,315	11	3,326	13
Due from component units	—	2,993	—	2,993	36
Inventories	—	—	4,852	4,852	3,541
Short-term investments (Note 3)	—	4,263	—	4,263	—
Securities lending collateral (Note 3)	—	—	206	206	270
Other current assets	—	5	80	85	1,209
Total current assets	315,752	45,599	143,630	504,981	106,108
Noncurrent assets:					
Advances to other funds (Note 12)	—	5,556	—	5,556	—
Advances to component units	—	20,736	—	20,736	—
Long-term investments (Note 3)	—	684	21,619	22,303	46,020
Long-term notes/loans receivable	662	38,692	11	39,365	—
Other long-term assets	—	1,854	1,178	3,032	—
Capital assets (Note 5):					
Land	—	—	800	800	236
Land improvements	—	—	3,830	3,830	95
Buildings/improvements	—	—	10,146	10,146	6,070
Equipment	—	4	9,542	9,546	249,614
Infrastructure	—	—	1,175	1,175	—
Construction work in progress	—	—	7,791	7,791	4,277
Intangible assets	—	—	78	78	2,086
Other capital assets	—	—	4,251	4,251	—
Less accumulated depreciation	—	(3)	(15,987)	(15,990)	(148,653)
Total capital assets	—	1	21,626	21,627	113,725
Total noncurrent assets	662	67,523	44,434	112,619	159,745
Total assets	316,414	113,122	188,064	617,600	265,853
DEFERRED OUTFLOWS OF RESOURCES	—	90	3,921	4,011	13,984

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
LIABILITIES					
Current liabilities:					
Accounts payable	$ 2,204	$ 604	$ 20,909	$ 23,717	$ 14,713
Lottery prizes payable	—	—	3,047	3,047	—
Interfund loans payable (Note 12)	—	—	—	—	12
Due to other governments	—	—	83	83	—
Due to other funds (Note 12)	—	—	13,645	13,645	1,718
Unearned revenue	—	—	2,197	2,197	1,474
Lease/installment purchase payable (Note 10)	—	—	213	213	3,132
Short-term debt (Note 11)	—	105,110	—	105,110	—
Bonds/notes payable - net (Note 11)	—	—	—	—	779
Amounts held in custody for others	—	—	30	30	1
Securities lending liability (Note 3)	—	—	206	206	270
Estimated insurance claims (Note 8)	—	—	13,877	13,877	22,029
Compensated absences payable (Note 11)	—	33	1,000	1,033	4,094
Total current liabilities	2,204	105,747	55,207	163,158	48,222
Noncurrent liabilities:					
Lottery prizes payable	—	—	754	754	—
Advances from other funds (Note 12)	—	—	—	—	4,206
Lease/installment purchase payable (Note 10)	—	—	18	18	9,971
Bonds/notes payable - net (Note 11)	—	—	—	—	699
Estimated insurance claims (Note 8)	—	—	5,083	5,083	10,875
Compensated absences payable (Note 11)	—	29	980	1,009	3,410
Arbitrage rebate tax payable (Note 11)	—	17	—	17	—
Net pension liability (Note 6)	—	419	16,039	16,458	64,195
Total OPEB liability (Note 7)	—	19	923	942	2,961
Other liabilities	—	1,855	—	1,855	—
Total noncurrent liabilities	—	2,339	23,797	26,136	96,317
Total liabilities	2,204	108,086	79,004	189,294	144,539
DEFERRED INFLOWS OF RESOURCES	—	17	814	831	1,669
NET POSITION					
Net investment in capital assets	—	1	21,394	21,395	94,723
Restricted for:					
Unemployment compensation	314,210	—	—	314,210	—
Other purposes	—	1,368	82,010	83,378	—
Unrestricted	—	3,740	8,763	12,503	38,906
Total net position	$ 314,210	$ 5,109	$ 112,167	$ 431,486	$ 133,629

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
Operating revenues:					
Charges for services	$ 129	$ 37	$ 175,503	$ 175,669	$ 154,028
Investment earnings	6,958	250	1,381	8,589	760
Securities lending income	—	—	5	5	21
Financing income	—	2,304	—	2,304	—
Contributions/premiums	114,549	—	114,081	228,630	184,497
Grants/contracts/donations	7,009	—	48,079	55,088	3,657
Other operating revenues	—	—	4,302	4,302	9,284
Total operating revenues	128,645	2,591	343,351	474,587	352,247
Operating expenses:					
Personal services	—	381	16,670	17,051	61,657
Contractual services	—	168	21,104	21,272	36,048
Supplies/materials	—	10	88,405	88,415	27,379
Benefits/claims	113,259	52	139,531	252,842	180,481
Depreciation	—	1	1,037	1,038	12,706
Amortization	—	—	116	116	1,077
Utilities/rent	—	51	1,349	1,400	7,317
Communications	—	13	1,195	1,208	13,087
Travel	—	4	307	311	525
Repairs/maintenance	—	—	1,024	1,024	20,230
Grants	—	—	—	—	229
Lottery prize payments	—	—	32,551	32,551	—
Securities lending expense	—	—	2	2	14
Arbitrage rebate tax	—	(1)	—	(1)	—
Interest expense	—	1,906	24	1,930	496
Other operating expenses	584	63	3,365	4,012	7,183
Total operating expenses	113,843	2,648	306,680	423,171	368,429
Operating income (loss)	14,802	(57)	36,671	51,416	(16,182)
Nonoperating revenues (expenses):					
Tax revenues (Note 1)	—	—	28,846	28,846	—
Non-employer pension revenue	—	6	227	233	917
Insurance proceeds	—	—	—	—	230
Gain (loss) on sale of capital assets	—	—	(228)	(228)	(234)
Federal indirect cost recoveries	—	—	—	—	8,858
Increase (decrease) value of livestock	—	—	4	4	—
Total nonoperating revenues (expenses)	—	6	28,849	28,855	9,771
Income (loss) before contributions and transfers	14,802	(51)	65,520	80,271	(6,411)
Capital contributions	—	—	3,474	3,474	80
Transfers in (Note 12)	—	—	762	762	1,723
Transfers out (Note 12)	—	—	(52,436)	(52,436)	(904)
Change in net position	14,802	(51)	17,320	32,071	(5,512)
Total net position - July 1 - as previously reported	298,631	5,084	91,293	395,008	128,785
Adjustments to beginning net position (Note 2)	777	76	3,554	4,407	10,356
Total net position - July 1 - as adjusted	299,408	5,160	94,847	399,415	139,141
Total net position - June 30	$ 314,210	$ 5,109	$ 112,167	$ 431,486	$ 133,629

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from sales and service	$ 114,838	$ 37	$ 286,430	$ 401,305	$ 337,217
Payments to suppliers for goods and services	(94)	(311)	(108,811)	(109,216)	(102,769)
Payments to employees	—	(430)	(17,545)	(17,975)	(65,947)
Grant receipts (expenses)	6,879	—	48,118	54,997	3,433
Cash payments for claims	(112,856)	—	(138,657)	(251,513)	(173,228)
Cash payments for prizes	—	—	(32,321)	(32,321)	—
Other operating revenues	339	—	4,302	4,641	18,143
Other operating payments	—	—	(3,361)	(3,361)	(7,184)
Net cash provided by (used for) operating activities	9,106	(704)	38,155	46,557	9,665
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	—	—	28,846	28,846	—
Transfer to other funds	—	—	(52,438)	(52,438)	(904)
Transfer from other funds	—	—	761	761	1,723
Proceeds from interfund loans/advances	—	—	—	—	220
Payment of interfund loans and advances	(75)	—	—	(75)	(1,727)
Payment of principal and interest on bonds and notes	—	(4,529)	(24)	(4,553)	(817)
Proceeds from nonemployer pension contributions	—	6	227	233	917
Net cash provided by (used for) noncapital financing activities	(75)	(4,523)	(22,628)	(27,226)	(588)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	—	—	—	—	230
Acquisition of capital assets	—	—	(83)	(83)	(18,634)
Proceeds from sale of capital assets	—	—	—	—	368
Net cash provided by (used for) capital and related financing activities	—	—	(83)	(83)	(18,036)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	—	(4,235)	(5,189)	(9,424)	(6,063)
Proceeds (loss) on sales or maturities of investments	—	10,917	—	10,917	—
Proceeds (loss) from securities lending transactions/ investments	—	—	5	5	21
Interest and dividends on investments	6,958	296	1,381	8,635	760
Payment of securities lending costs	—	—	(2)	(2)	(14)
Collections of principal and interest on loans	—	36,265	—	36,265	—
Cash payment for loans	—	(20,630)	—	(20,630)	—
Net cash provided by (used for) investing activities	6,958	22,613	(3,805)	25,766	(5,296)
Net increase (decrease) in cash and cash equivalents	15,989	17,386	11,639	45,014	(14,255)
Cash and cash equivalents, July 1	295,623	6,699	95,028	397,350	107,594
Cash and cash equivalents, June 30	$ 311,612	$ 24,085	$ 106,667	$ 442,364	$ 93,339

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 14,802	$ (57)	$ 36,671	$ 51,416	$ (16,182)
Adjustments to reconcile operating income to net cash provided for (used for) operating activities:					
Depreciation	—	1	1,037	1,038	12,706
Amortization	—	—	116	116	1,077
Securities lending expense	—	—	2	2	14
Investment earnings	(6,958)	(250)	(1,381)	(8,589)	(760)
Securities lending income	—	—	(5)	(5)	(21)
Financing income	—	(2,304)	—	(2,304)	—
Interest expense	—	1,906	24	1,930	496
Other revenue	775	4	—	779	8,854
Arbitrage rebate tax	—	(1)	—	(1)	—
Change in assets, deferred outflows, liabilities and deferred inflows:					
Decr (Incr) in accounts receivable	565	51	(4,335)	(3,719)	(1,891)
Decr (Incr) in due from other funds	—	—	(11)	(11)	19
Decr (Incr) in due from component units	—	—	—	—	(36)
Decr (Incr) in due from other governments	16	—	39	55	1
Decr (Incr) in inventories	—	—	636	636	(584)
Decr (Incr) in other assets	—	(5)	187	182	600
Incr (Decr) in accounts payable	(94)	(2)	4,872	4,776	(4,458)
Incr (Decr) in due to other funds	—	—	101	101	(116)
Incr (Decr) in due to other governments	—	—	9	9	—
Incr (Decr) in lottery prizes payable	—	—	230	230	—
Incr (Decr) in unearned revenue	—	—	197	197	(150)
Incr (Decr) in compensated absences payable	—	—	(5)	(5)	41
Incr (Decr) in total OPEB liability	—	(68)	(152)	(220)	32
Incr (Decr) in estimated claims	—	—	(1,280)	(1,280)	(846)
Incr (Decr) in other payables	—	(4)	(181)	(185)	7,191
Incr (Decr) in net pension liability and related accounts	—	25	1,384	1,409	3,678
Net cash provided by (used for) operating activities	$ 9,106	$ (704)	$ 38,155	$ 46,557	$ 9,665
Schedule of noncash transactions:					
Capital asset acquisitions from contributed capital	$ —	$ —	$ 3,474	$ 3,474	$ 80
Incr (Decr) in fair value of investments	—	14	294	308	862
Total noncash transactions	$ —	$ 14	$ 3,768	$ 3,782	$ 942

The notes to the financial statements are an integral part of this statement.

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	$ 297,410	$ 85,549	$ 1,221,292	$ 11,097
Receivables (net):				
Accounts receivable	28,248	—	—	607
Interest	437	33	2,180	—
Due from primary government	32,014	—	—	—
Due from other PERB plans	673	—	—	—
Long-term loans/notes receivable	16	—	—	—
Total receivables	61,388	33	2,180	607
Investments at fair value:				
Equity in pooled investments (Note 3)	11,308,857	—	12,028	—
Other investments (Note 3)	738,309	164,815	—	—
Total investments	12,047,166	164,815	12,028	—
Securities lending collateral (Note 3)	73,608	—	167	—
Capital Assets:				
Land	35	—	—	—
Buildings/improvements	186	—	—	—
Equipment	96	—	—	—
Construction work in progress	787	—	—	—
Accumulated depreciation	(242)	—	—	—
Intangible assets	6,477	—	—	—
Total capital assets	7,339	—	—	—
Other assets	—	37,607	—	302
Total assets	12,486,911	288,004	1,235,667	12,006
DEFERRED OUTFLOWS OF RESOURCES	569	—	—	—
LIABILITIES				
Accounts payable	38,708	1	2,145	673
Due to other PERB plans	673	—	—	—
Unearned revenue	440	—	—	—
Amounts held in custody for others	—	—	—	11,333
Securities lending liability (Note 3)	73,608	—	167	—
Compensated absences payable	600	—	—	—
Net pension liability (Note 6)	1,777	—	—	—
Total OPEB liability (Note 7)	224	—	—	—
Total liabilities	116,030	1	2,312	12,006
DEFERRED INFLOWS OF RESOURCES	89	—	—	—
NET POSITION				
Held in trust for pension benefits and other purposes	$ 12,371,361	$ 288,003	$ 1,233,355	$ —

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018
(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	$ 253,455	$ —	$ —
Employee	240,153	—	—
Other contributions	114,862	16,743	1,516,370
Net investment earnings:			
Investment earnings	1,078,508	9,620	17,429
Administrative investment expense	(71,584)	—	—
Securities lending income	2,220	—	3
Securities lending expense	(886)	—	(1)
Charges for services	601	—	—
Other additions	886	4,993	—
Total additions	1,618,215	31,356	1,533,801
DEDUCTIONS			
Benefits	881,509	—	—
Refunds	24,731	—	—
Distributions	—	33,030	1,346,652
Administrative expenses:			
Personal services	4,924	—	—
Contractual services	5,287	822	—
Supplies/materials	145	—	—
Depreciation	10	—	—
Amortization	1,238	—	—
Utilities/rent	375	—	—
Communications	238	—	—
Travel	55	—	—
Repair/maintenance	26	—	—
Other operating expenses	391	—	—
Local assistance	11	—	—
Transfers to MUS-RP	198	—	—
Transfers to PERS-DCRP	2,069	—	—
Total deductions	921,207	33,852	1,346,652
Change in net position	697,008	(2,496)	187,149
Net position - July 1 - as previously reported	11,673,439	290,499	1,046,206
Adjustments to beginning net position (Note 2)	914	—	—
Net position - July 1 - as adjusted	11,674,353	290,499	1,046,206
Net position - June 30	$ 12,371,361	$ 288,003	$ 1,233,355

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana (State) have been prepared in accordance with Generally Accepted Accounting Principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

For financial reporting purposes, the State includes funds that comprise the primary government and its component units. The component units are entities that the State is financially accountable for, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units
These component units are entities that are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The condensed financial statements, presented in Note 18, include the financial data of the entities listed below.

Complete financial statements for each of the individual discretely presented component units may be obtained at the following addresses:

Montana Board of Housing
301 South Park, Room 240
PO Box 200528
Helena, MT 59620-0528

Montana State Fund
855 Front Street
PO Box 4759
Helena, MT 59604-4759

Facility Finance Authority
2401 Colonial Drive, 3rd Floor
PO Box 200506
Helena, MT 59620-0506

Universities and Colleges
Commissioner of Higher Education
560 North Park Ave, 4th Floor
PO Box 203201
Helena, MT 59620-3201

Montana Board of Housing (MBOH) – MBOH, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. The State of Montana has the ability to modify or approve: the budget; the rate or fee changes affecting revenues; and the ability to appoint, hire, reassign, or dismiss those responsible for the day-to-day operations of MBOH. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. MBOH issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $1.5 billion. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. MBOH is attached to the State of Montana, Department of Commerce for administrative purposes only. MBOH is audited annually by the State's Legislative Audit Division.

Facility Finance Authority (FFA) – FFA, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The State of Montana has the ability to modify or approve: the budget; the rate or fee changes affecting revenues; and the ability to appoint, hire, reassign, or dismiss those responsible for the day-to-day operations of FFA. FFA assists eligible, nonprofit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. FFA issues revenue bonds to fulfill its purposes. Neither the faith and credit or taxing power of the State of Montana may be pledged for the amounts so issued. FFA is attached to the State of Montana, Department of Commerce

for administrative purposes only. Individual financial reports are issued every two years and are audited by the State's Legislative Audit Division.

Montana State Fund (MSF) – MSF is a nonprofit, independent public corporation established under Section 39-71 of the Montana Code Annotated (MCA). MSF provides Montana employers with an option for workers' compensation and occupational disease insurance and guarantees available coverage for all employers in Montana. MSF is governed by a seven member Board of Directors appointed by the Governor. This Board has full power, authority, and jurisdiction in the administration of MSF. A financial benefit/burden relationship exists between MSF and the primary government. MSF is attached to the State of Montana, Department of Administration for administrative purposes only. MSF is reported on a calendar year basis and is audited annually by the State's Legislative Audit Division.

MSF functions as an autonomous insurance entity supported solely from its own revenues. All assets, debts, and obligations of MSF are separate and distinct from assets, debts, and obligations of the State of Montana. If MSF is dissolved by an act of law, the assets held by MSF are subject to the disposition provided by the Legislature enacting the dissolution with due regard given to obligations incurred and existing (Section 39-71-2322, MCA).

MSF handles the administration of the claims of Montana State Fund and State of Montana (Old Fund) including: determining who a claimant is; what, if any, claims will be paid; and the amount of claims allowed to be paid. Old Fund covers workers' compensation claims that were incurred before July 1, 1990, and is reported within the governmental activities of the primary government, on the government-wide financial statements.

Universities and Colleges – The Montana Constitution, Article X, Section 9, grants governance authority over the Montana University System (MUS) to the Board of Regents (Board), with seven members appointed by the Governor and confirmed by the Senate. All state funds appropriated by the Legislature to the Board for the support of the MUS are channeled through the Office of the Commissioner of Higher Education (OCHE). The Constitution charges the Board with hiring a Commissioner of Higher Education who serves as its executive staff. OCHE is the state-level administrative organization of the MUS.

The Board has responsibility for the following institutions: Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and Great Falls College Montana State University; and University of Montana - Missoula and the units under it including Montana Technological University, University of Montana - Western and Helena College University of Montana. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division.

Though the following organizations perform functions related to the MUS, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private nonprofit corporation; and (3) the Student Assistance Foundation of Montana, a private nonprofit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The state and federal support of local public education systems is reported in the General Fund, the State Special Revenue Fund and Federal Special Revenue Fund.

Fiduciary Fund Component Units
Complete financial statements for each of the individual fiduciary fund component units may be obtained at the following addresses:

Teachers' Retirement System
1500 East Sixth Avenue
PO Box 200139
Helena, MT 59620-0139

Public Employees' Retirement Board
100 North Park, Suite 200
PO Box 200131
Helena, MT 59620-0131

Teachers' Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to benefit recipients of Montana's public teaching profession. The plan is funded from employer and employee contributions, investment earnings, and the State's General Fund. The benefit payments and administrative costs of the Teachers'

Retirement System are paid from the same funding sources. The system is audited annually by the State's Legislative Audit Division. Further detail related to the Teachers' Retirement System is provided in Note 6.

Public Employees' Retirement Board (Pension and Other Employee Benefit Trust Funds) – The Public Employees' Retirement Board (PERB) is appointed by the Governor and administers eleven separate plans for the purpose of providing retirement, disability, death, and lump-sum payments to plan members. These legally separate plans include the Public Employees' Retirement Plan – Defined Benefit and Defined Contribution and the associated education funds; the Judges'; the Highway Patrol Officers'; the Sheriffs'; the Game Wardens' and Peace Officers'; the Municipal Police Officers'; the Firefighters' Unified Retirement Systems; the Volunteer Firefighters' Compensation Act; and the State of Montana Deferred Compensation Program (457 Plan) retirement plans. The board also administers an Other Post Employment Benefit (OPEB) disability plan on behalf of Public Employees' Retirement Plan-Defined Contribution members.

PERB is responsible for the eleven separate public employee plans, including the Deferred Compensation Program and Other Post Employment Benefit plan. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Further detail related to the PERB is provided in Note 6 and its OPEB plan information is provided in Note 7.

B. Government-wide and Fund Financial Statements

The government-wide financial statements, Statement of Net Position and Statement of Activities, report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the impact of interfund activity has been removed from these statements. Governmental activities, which are normally supported by fees, taxes, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues. The State does not allocate indirect expenses to functions in the Statement of Activities.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements. Fiduciary fund statements are reported only in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met. Agency funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

As a general rule, material interfund revenues and expenses have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are realizable, measurable, earned, and available. Revenue is considered realizable when it is probable the amount will be collected. Revenue is considered measurable and realizable if the precise amount is known because the transaction is completed, or if there is enough information to provide a reasonable estimate of the net realizable revenue to be received. Revenue is considered to

have been earned when the exchange of goods or services has taken place. Revenue is considered to be available if it is collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the State considers revenue available if it is expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences, claims, and judgments are recorded only when payment is due.

The major revenue sources considered susceptible to accrual are licenses and permits, natural resource taxes, individual income taxes, corporate income taxes, property taxes, fuel taxes, and certain federal revenues (reimbursable grants and U.S. mineral royalties). All other revenue is considered to be measurable and available when the cash is received.

Fund Financial Statements
The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds
General Fund – To account for all governmental financial resources, except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects. (1) The State Special Revenue Fund accounts for activities funded from state resources used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Several funds are defined in statute as Permanent Funds, however per GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), these funds should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately an $86.2 million increase. One specific fund is defined in statute as a Federal Special Revenue Fund, however per GASB 54, this fund should be reported within the State Special Revenue Fund. The respective effect on fund balance is approximately a $23.5 million increase. (2) The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs. Several funds are defined in statute as Permanent Funds, however per GASB 54 these funds should be reported within the State Special Revenue Fund.

Proprietary Funds
Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government. One specific fund is defined in statute as an Enterprise Fund, however, per GASB 34, this fund should be reported within Internal Service Funds. The respective effect on net position is approximately a $4.4 million increase.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds
Fiduciary Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs.

Pension (and Other Employee Benefit) Trust Funds – To account for resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans, defined contribution plans, other retirement plans and other post employment benefit plan. Plan members receive retirement, disability, death, and lump-sum payments from the fund. Further detail related to the individual plans is provided in Note 6 and Note 7.

Private-Purpose Trust Funds –To account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments. Examples include the State's escheated property fund, unliquidated security bonds held on deposit from self-insured employers, environmental reclamation, and bonds held in trust.

Investment Trust Fund – To account for the receipt of monies and the distribution of related investment earnings to local government agencies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP) and Trust Fund Investment Pool (TFIP).

Agency Funds – To account for assets held by the State as an agent for individuals, private organizations, and other governments. For example, various agencies hold deposits pending compliance with performance agreements. Other examples include monies belonging to state institution residents and child support payments from parents.

Major Governmental Funds
The General Fund is the State's primary operating fund, as previously defined.

The State Special Revenue Fund accounts for activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for activities funded from federal sources used in the operation of state government.

The Coal Severance Tax Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Enterprise Funds
The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund (EDB) accounts for the Economic Development Bond Act (EDBA) programs and the Municipal Finance Consolidation Act (MFCA) programs. The EDBA programs provide qualifying Montana businesses access to tax-exempt funds through the issuance of conduit (no-commitment) debt. The MFCA programs provide low cost funds to eligible Montana governments to finance capital expenditures. Separately issued financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. Further detail related to cash and cash equivalents is provided in Note 3.

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided, short-term loans and notes, interest and dividends, taxes due within 60 days of fiscal year-end, and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail related to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are reported at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method generally to be appropriate for most agencies. Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, inventory balances are shown as nonspendable, indicating they do not constitute available expendable resources. Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Equity in Pooled Investments

To account for equity in pooled investments, the Montana Board of Investments (BOI) uses one internal investment pool and one external investment pool. The internal investment pool is the Consolidated Asset Pension Pool (CAPP). The external investment pool is the Trust Fund Investment Pool (TFIP). Current State agency participation in the pools is within the enterprise funds, permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific funds established within the State Special Revenue Fund. The State's nine retirement funds can only participate in CAPP. Other State agencies and qualifying local governments can participate in TFIP. The participant investments in the pools are reported at fair value in the assets within the individual funds. Further detail related to cash and cash equivalents and investments is provided in Note 3.

I. Investments

For agencies whose investment needs are not met by BOI's established investment pools, BOI provides separate investments, which are combined and reported as Separately Managed Investments (SMI). SMI participants have direct fixed income, equity and Montana mortgage and loan investments. SMI investments are reported at fair value. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Other State agencies, on a limited basis by statute, may administer other long-term investments. Most investments are reported at fair value on the Statement of Net Position. Further detail related to investments is provided in Note 3.

J. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, acquisition value. General government infrastructure capital assets are capitalized and reported on the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds is capitalized. Interest incurred during the construction of capital assets for higher education component units is expensed. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation on the Statement of Net Position and depreciation expense on the Statement of Activities for these assets. Further detail related to capital assets is provided in Note 5.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated or amortized. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 10 to 50 years for infrastructure, 7 to 20 years for building improvements and 3 to 10 years for equipment. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate. Amortization is on a straight-line basis with estimated useful lives of 4 years for software (internally and externally generated), 30 years for land use rights, and 20 years for other intangibles.

The capitalization limit for buildings and building/land improvements is $25,000. The capitalization threshold for infrastructure and internally-generated software is $500,000. The capitalization threshold for intangible assets is $100,000. The capitalization limit for other capital assets is $5,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

K. Deferred Outflows, Deferred Inflows, and Unearned Revenue

A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows and inflows of resources may include financial transactions related to refunding debt, non-exchange transactions, derivative investment, OPEB, and pension related components and are reported on the government-wide, proprietary fund, and fiduciary fund financial statements. Additionally, deferred inflows of resources may include financial transactions related to unavailable revenue on the governmental fund financial statements. Unavailable revenue is reported when assets are recognized, but those assets are not considered available to pay liabilities of the current period. Unearned revenue is recognized as a liability on government-wide, governmental and proprietary fund financial statements. Further detail related to deferred outflows of resources and deferred inflows of resources is provided in Note 4.

L. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported on the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund on the fund financial statements. The remaining portion of such obligations is reported on the government-wide financial statements. Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds. Further detail related to leases/installment purchases payable and state debt is provided in Note 10 and Note 11, respectively.

M. Capital Leases

A capital lease is a lease which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, on the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. On the governmental fund financial statements no asset or liability is recorded related to assets under capital leases. Rather, on the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditures and other financing sources (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments. Further detail related to capital leases is provided in Note 10.

N. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the period they are incurred. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. Bonds payable are recorded net of any applicable premium or discount. Further detail related to long-term debt is provided in Note 11.

O. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 80 hours of sick or annual leave to a nonrefundable sick leave pool. Excess annual leave that is being forfeited can also be contributed, with no maximum contribution. The adjusted ending balance of the pool for June 30, 2017, was 20,984 hours. For fiscal year 2018, 795 sick leave hours, 176 annual leave hours, and 1,859 excess annual leave hours were contributed to the sick leave pool, and 4,504 hours were withdrawn, leaving a balance of 19,310 hours in the pool. The liability associated with the pool is not reported in the accompanying financial statements because these hours are nonrefundable to contributors, except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only on the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave. Further detail related to compensated absences is provided in Note 11.

P. Nonexchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled $81.5 million as of June 30, 2018. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

Q. Fund Balance/Net Position

Fund Balance

The classifications for fund balance used for governmental funds are reported in two general classifications, nonspendable and spendable. Nonspendable represents the portion of fund balance that is legally or contractually required to remain intact or is not in spendable form such as inventories, and, in the General Fund, long-term notes and loans receivable. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the State Constitution or external parties, such as the federal government, or through enabling legislation. For the purpose of determining restricted amounts, enabling legislation does not include commitments resulting from State legislation if these constraints can be removed or changed by a similar legislative action.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the State's Legislature, through legislation passed into law.

Amounts, in the assigned fund balance classification, are intended to be used by the government for specific purposes, but they do not meet the criteria to be classified as restricted or committed. Assignments of fund balance are created by the executive branch. In governmental funds other than the General Fund, assigned fund balance also represents the remaining amount that is not restricted or committed. The assigned fund balance for the General Fund are encumbrances and assignments for the portion of current General Fund balance that is projected to be used to fund expenditures and other cash outflows in excess of the expected revenues and other cash inflows in fiscal years as needed. There is not a projected spend down for fiscal year 2019, thus a related assignment of fund balance is not reported at 2018 fiscal year-end.

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The State generally segregates restricted, committed, and assigned resources by account (sub-fund) within the governmental funds, other than the General Fund. When resources meeting more than one of these spendable classifications are commingled in an account on the State's accounting system the assumed order of spending is restricted first, committed second, and finally assigned. State statute requires non-General Fund money be spent first whenever possible so any related available unassigned balance would be spent last.

General Fund - Fund Balance

As of June 30, 2018, the State did not maintain a stabilization fund. However, based on fiscal year 2018 unaudited General Fund revenue totals, $45.7 million was transferred into the Budget Stabilization Reserve Fund during fiscal year 2019, in accordance with 2017 Special Session Senate Bill 9. Additionally, statute provides a minimum fund balance amount as follows: Section 17-7-140, MCA, defines minimum ending fund balance and specifies the procedures that must be followed to make expenditure reductions if a projected ending fund balance drops below minimum statutory requirements.

If the Budget Director determines that a deficit exists, statute requires reductions that must be made to assure that the projected ending fund balance is in compliance with the minimum ending fund balance of General Fund appropriations for the biennium. Under circumstances when a deficit of this level is projected during a biennium, the Governor may direct reductions from any General Fund expenditure not exempted by Section 17-7-140, MCA, including House Bill (HB) 2 (the State's main appropriation bill), any other appropriation bills, statutory appropriations, or language appropriations. Reductions may not exceed 10% of General Fund appropriations for any single "program," as defined in HB 2. If a program has more than one appropriation, the reduction for one or more of the appropriations may exceed 10% as long as the reduction for the program as a whole does not exceed 10%.

The Legislative and Judicial branches, the Montana School for the Deaf and Blind, principal and interest on state debt, salaries of elected officials, and public school BASE funding are exempt, statutorily, from reductions. These exemptions shield approximately one-third of General Fund appropriations from reduction. Of the remaining expenditures, the Governor may not direct executive agencies headed by elected officials or the Board of Regents to reduce their expenditures by more than the average reduction percentage imposed upon all other executive branch agencies.

Net Position

In funds other than governmental, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net investment in the capital assets portion of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions, enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Position reported restricted net position of $3.4 billion.

Certain investments of the Economic Development Bonds Fund are classified as restricted net position on the Statement of Fund Net Position for proprietary funds because their use is limited by applicable bond indenture agreements. Net position associated with the Unemployment Insurance Fund is also classified as restricted.

R. Property Taxes

Real property taxes are normally levied in October and are usually payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Property tax payments are recognized as deferred inflows of resources if received prior to levy or availability.

Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

S. Other Taxes

On the Statement of Activities, the revenue category “Other Taxes” consists of the following taxes (in thousands):

	General Fund	State Special Revenue	Other Governmental Funds	Business-Type Funds	Total
Accommodations	$ 24,430	$ 33,259	$ —	$ 20	$ 57,709
Agriculture	—	10,774	—	—	10,774
Car Rental	3,644	1,215	—	—	4,859
Cigarette/tobacco/etc.	33,792	44,830	1,600	—	80,222
Contractors gross receipts	4,267	—	—	—	4,267
Energy tax	8,042	145	—	—	8,187
Fire protection	—	3,824	—	—	3,824
Hospital benefit assessment	4,351	—	—	—	4,351
Insurance premium	75,239	31,017	—	—	106,256
Light vehicle registration	—	4,280	—	—	4,280
Liquor tax	5,452	2,203	—	28,826	36,481
Livestock	—	9,749	—	—	9,749
Other taxes	218	932	—	—	1,150
Public service commission	—	3,994	—	—	3,994
Railroad car companies	3,629	—	—	—	3,629
Telephone license	16,068	—	—	—	16,068
Video gaming	60,324	9	—	—	60,333
Total other taxes	$ 239,456	$ 146,231	$ 1,600	$ 28,846	$ 416,133

T. Tax Abatements

In the Montana Board of Investment’s (BOI) Commercial Loan Program within the SMI, by statute, the infrastructure loan program is funded by an $80.0 million allocation. Eligible local governments request a loan for constructing or purchasing infrastructure to be used by a basic sector business. The basic sector business will pay a user fee to the local government that is pledged to BOI for the loan repayment. BOI reviews each loan and, only upon verification that the entities meet the loan requirements, is the loan approved by BOI. The local government entity must pass a resolution authorizing the acceptance of the commitment agreement. BOI indemnifies the local government regarding repayment of the loan.

To be eligible for the program, the basic sector business must create at least 15 full-time basic sector jobs. The maximum loan size is $16.7 thousand times the number of full-time jobs created and the minimum loan size is $250.0 thousand. The maximum loan term is 25 years. There is also up to a 2.5% interest rate reduction for job creation. The reduction will be reflected in the user fee rate charged to the basic sector business upon BOI review and approval. The basic sector business must create the required jobs within four years of the agreement. If the basic sector business does not create the required jobs within the four-year period, then the basic sector business must pay down the loan balance of the local government entity until the loan balance matches the eligible amount per the jobs created. BOI may increase the interest rate commensurate with the number of jobs eliminated if the borrower eliminates 10 or more qualifying jobs. The basic sector business must annually provide payroll documentation to BOI.

Pursuant to statute, a business that is created or expanded as the result of an Infrastructure Loan is entitled to a credit against either their State individual income taxes or corporate income taxes for the portion of the fees attributable to the use of the infrastructure. The total amount of tax credit claimed may not exceed the amount of the loan. The credit may be carried forward for seven years or carried back for three years.

During the fiscal year ended June 30, 2018, basic sector business entities made total user fee payments of $3.5 million, representing $2.4 million of principal and $1.1 million in interest. During the fiscal year ended June 30, 2018, a total of $1.4 million was claimed as a credit against State individual and corporation tax. The following table details the fiscal year 2018 credit claimed by tax type and the tax year it was applied against (in thousands):

Infrastructure Credit Claimed

	Tax Year 2017	Tax Year 2016	Total
Corporate income tax	$ —	$ 706	$ 706
Individual income tax	66	624	690
Total amount claimed	$ 66	$ 1,330	$ 1,396

U. Irrevocable Split Interest Agreements

Irrevocable split-interest agreements are used by donors to provide resources to two or more beneficiaries, including governments. These agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements. The University of Montana campuses have three irrevocable split interest agreements during the fiscal year ended June 30, 2018. Further detail related to these agreements are provided in Note 3.

NOTE 2. OTHER ACCOUNTING CHANGES

A. New Accounting Guidance Implemented

For the year ended June 30, 2018, the State of Montana implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The objective of this Statement is to improve the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves the information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. An actuarial valuation of the total OPEB liability is required at least biennially for all plans. Montana State Fund (MSF), a discretely presented component unit of the State of Montana, has a December 31 year-end. Therefore, MSF financial information related to OPEB is reported under GASB 45 in this report. MSF will implement GASB 75 for their December 31, 2018 reporting period.

For the year ended June 30, 2018, the State of Montana implemented the provisions of GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). This Statement requires recognition of resources by a government in the following circumstances: (1) A government, acting as the intermediary, recognizes assets, liabilities to other beneficiaries, and deferred inflows of resources at the inception of the agreement when the government receives the resources pursuant to an irrevocable split-interest agreement; (2) A government recognizes assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, and deferred inflow, when the government becomes aware of the agreement and has sufficient information to measure the beneficial interest; (3) A government recognizes revenue for the amount reported as deferred inflows of resources at the termination of the irrevocable split-interest agreement or applicable reporting period.

For the year ended June 30, 2018, the State of Montana implemented the provisions of GASB Statement No. 85, *Omnibus 2017* (GASB 85). The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to (1) blending component units in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation, (2) reporting amounts previously reported as goodwill and "negative" goodwill, (3) measuring certain money market investments and participating interest earning investment contracts at amortized cost, and (4) postemployment benefits (pensions and other postemployment benefits OPEB).

For the year ended June 30, 2018, the State of Montana implemented the provisions of GASB Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). The objective of this Statement is to provide guidance for (1) transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt (in-substance defeasance of debt), (2) prepaid insurance on debt that is extinguished, and (3) notes disclosure to financial statements for debt that is defeased in substance. In financial statements using the economic resources measurement focus, governments should (1) no longer report the debt as a liability, and (2) recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. In financial statements using the current financial resources measurement focus, governments should recognize the reacquisition price as a debt service expenditure in the period of the defeasance. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the gain or loss.

For the year ended June 30, 2018, the Montana University Systems, discretely presented component units of the State of Montana, early implemented the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). GASB 89 replaces the requirements of paragraphs 5-22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense or an expenditure in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus or the current financial resources measurement focus,

respectively. This statement does not change the recording of interest costs incurred before the end of a construction period for financial statements prepared using the current financial resources measurement focus (modified accrual). As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported on the financial statements. The State of Montana did not early implement GASB 89 for the year ended June 30, 2018.

B. Adjustments to Beginning Net Position

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), requires a retroactive restatement of financial statements for all prior periods presented. If restatement for prior periods is not practical, the cumulative effect of applying the statements is presented as a restatement of beginning net position for the earliest period restated. In accordance with GASB 75, the State of Montana restated OPEB liabilities beginning with the year ended June 30, 2018. A significant decrease of OPEB liabilities for the primary government has been reported in the amount of $245.0 million, creating an increase to beginning net position in the same amount. A significant decrease of OPEB liabilities for the discretely presented component units of the State of Montana aggregated has been reported in the amount of $82.0 million, creating an increase to beginning net position in the same amount.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

Cash/cash equivalents	$	3,799,431
Equity in pooled investments	$	13,649,012
Investments	$	3,294,000

Carrying amounts for the bank balance for cash deposits and fair values for the State's cash equivalents and investments are presented in Tables 1 through 4.

A. General

Outside of statutory requirements, the State does not maintain a statewide risk policy for cash/cash equivalents or investments, held outside of the Montana Board of Investments (BOI). The investment risk policy for State cash/cash equivalents and investments, including the Economic Development Bonds (EDB) deposits and investments managed by BOI, have been detailed below.

(1) BOI was created by the Legislature to manage the Unified Investment Program (UIP) established by the State Constitution. The UIP is comprised of involuntary participating state funds, including pensions, trusts, insurance, operating funds and by statute voluntarily participating local government funds. BOI manages the UIP pursuant to the "Prudent Expert Principle" mandated by State law, which requires an investment manager to:

1. discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;
2. diversify the holdings of each fund within the Unified Investment Program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and
3. discharge the duties solely in the interest of and for the benefit of the funds forming the Unified Investment Program.

BOI is not registered with the US Securities and Exchange Commission as an investment company. BOI's investment program is governed by Investment Policy Statements (IPS) approved by BOI.

Currently, only the nine retirement funds participate in the Consolidated Asset Pension Pool (CAPP). The Defined Contribution Disability Plan, and the Montana State Fund (Workers' Compensation) may invest in public corporate capital stock. Neither State law nor the State Constitution place restrictions on retirement fund investments. BOI approves a separate IPS for each pool and SMI participant, which provides BOI staff a broad strategic framework under which the investments are managed. The IPS's also reflect BOI approved asset allocation ranges. By statute, local government entities can voluntarily invest in the Short Term Investment Pool (STIP). By statute, with a qualifying event, local government entities may also voluntarily invest in the Trust Funds Investment Pool (TFIP).

To facilitate management of the UIP, BOI uses a combination of one internal investment pool, two external investment pools and the SMI to meet the financial goals and expectations of state and local government agencies and entities which entrust these funds to BOI. The investment activity reported within BOI's financial statements is included as part of the governmental, proprietary, and fiduciary fund financial statements within this report. Three pools and SMI are contained within the UIP:

- The Consolidated Pension Asset Pool (CAPP), an internal investment pool
- Trust Funds Investment Pool (TFIP), an external investment pool
- Short Term Investment Pool (STIP), an external investment pool
- Separately Managed Investments (SMI)

As of June 30, 2018, BOI separately managed investments outside of the pools on behalf of 16 participants. The investments are combined for reporting purposes in the SMI portion of the UIP. In prior years, the SMI portion of the UIP was referred to as All Other Funds (AOF). SMI participants include the State Treasurer's Cash Fund, State agency insurance reserves, and other State agencies. SMI participation is at the discretion of BOI staff for State agencies allowed to participate in the UIP.

State agencies and local government entities may participate in one or more pools. By investing in pools, participants are provided broad diversification. State agencies may also have direct fixed income, equity, or loan investments. These investments are combined and reported as SMI.

Separately issued investment pool financial statements may be obtained by contacting:

Montana Board of Investments
2401 Colonial Drive, 3rd Floor
PO Box 200126
Helena, MT 59620-0126

BOI's separately issued Unified Investment Program financial statements include the activity for Montana State Fund (MSF) within SMI on a June 30, 2018, basis. MSF, a discretely presented component of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting periods, there will be a variance between the note disclosures and the financial statements for cash/cash equivalents and investments.

(a) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in STIP, cash held by trustees, undeposited cash held by individual State agencies, and investments categorized as cash equivalents. For the fiscal year ending June 30, 2018, BOI reevaluated the measurement of cash and cash equivalents, now reporting such investments at cost. Under GASB, cash equivalents can be reported under fair value or cost basis. BOI analyzed the immaterial difference of cash equivalents between their fair value and cost and determined the more relevant disclosure was under the cost method. The change did not cause a restatement of beginning net position due to the immaterial impact on beginning net position.

Cash deposited with the State Treasurer's pooled cash account is invested by BOI in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. BOI also manages STIP, which provides individual State agencies and local governments an opportunity to invest excess cash in a pool that is managed to preserve principal while providing 24-hour liquidity. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

(b) Investment securities are reported by investment portfolio and type in Table 2 – Cash Equivalents, Table 3 –Equity in Pooled Investments, and Table 4 – Investments. Unrealized gains and losses are included as a component of investment income. Unrealized gains and losses are computed based on changes in the fair value of investments held from the beginning of the year, but unsold at the fiscal year end. The net change in fair value of investments also consists of the realized gains or losses. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

Investments are reported at fair value on a trade date basis. Quoted market prices, when available, have been used to value investments. The fair values for securities that have no quoted market prices represent estimated fair value. Alternative investment securities are valued using the most recent estimates of fair value from the investment managers. Fair value measurements are reviewed monthly, and third-party valuations are reviewed for reasonableness and compliance with approved price source authorization policy. All investment portfolios are presented at "fair" value. BOI categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets.
Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
Level 3 – Prices are determined using unobservable inputs.

(c) Security Lending - BOI is authorized by law to lend its securities and has contracted with the custodial bank, to lend BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. On any day, including June 30, the markets may move in a positive or negative direction resulting in under or over collateralization. The custodial bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. BOI and the custodial bank split the earnings, 80/20 respectively, on security lending activities. BOI retains all rights and risks of ownership during the loan period. The custodial bank indemnifies BOI's credit risk exposure to the borrowers.

During fiscal year 2018, the custodial bank lent BOI's public securities and received as collateral: US dollar cash; US government and government sponsored agency securities; US corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the Group of Ten nations; and debt securities issued by certain supranational agencies. The custodial bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2018. However, STIP assets are currently not available for securities lending. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during fiscal year 2018 resulting from a borrower default. As of June 30, 2018, no securities were recalled and not yet returned.

The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in an investment fund, the Navigator Securities Lending Government Money Market (Navigator) portfolio.

BOI and the borrowers maintain the right to terminate all securities lending transactions on notice. Since the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. The average duration was 10 days and the average weighted final maturity was 70 days within the Navigator portfolio.

(d) Investment Pools and SMI are described in the following paragraphs.

CAPP

The CAPP IPS contains prescribed asset allocation ranges among the allowable asset classes and is subject to change as modifications are adopted by BOI. BOI annually affirms or revises the asset allocation ranges for the retirement plans. The CAPP IPS contains investment objectives and guidelines for each underlying asset class, with a purpose of providing diversified exposure within the asset class in a prudent and cost-effective manner. Due to a longer-term focus, CAPP's asset classes differ from other classes that are allowable for other programs. CAPP's underlying asset classes are as follows:

- Domestic Equities
- International Equities
- Private Equities
- Natural Resources
- Real Estate
- US Treasury Inflation-Protected Securities (TIPS)
- Broad Fixed Income
- US Treasury/Agency
- Investment Grade
- Mortgage Backed Securities
- High Yield
- Cash
- Diversifying Strategies

The CAPP IPS is the only IPS that allows for investments that can be held in non-US securities in a foreign currency. Per the CAPP IPS, the Investment Grade Credit Asset Class, Agency Mortgage Backed Securities Asset Class and High Yield Asset Class sections have maximum restrictions that can be held. Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the US dollar value of investments made.

TFIP

The TFIP IPS provides for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations, also known as Yankee bonds, and a 3% portfolio limit in non-agency mortgage pass-through (MBS) securities. TFIP invests primarily in investment grade, US dollar denominated fixed income securities. The portfolio has high yield and core real estate exposure.

STIP

The STIP IPS limits concentration of credit risk exposure by limiting portfolio investment types to 3% in any issuer except for US Treasury and US Agency securities as well as any repurchase agreements with a financial institution.

STIP invests primarily in short-term, high quality, fixed income securities with a maximum maturity of 397 days or less. Variable securities shall have a maximum maturity of 2 years. STIP shall maintain a dollar-weighted average portfolio maturity of 60 days or less. STIP is managed to preserve principal while providing 24-hour liquidity for state agency and local government participants.

SMI

SMI invests primarily in investment grade, US dollar denominated fixed income securities. However, one participant portfolio has exposure to core real estate. The SMI portfolio also includes Veteran's Home Loan Mortgages (VHLM) and commercial loans.

The SMI Montana loans receivable represent commercial loans funded from the Coal Severance Tax Trust Fund by BOI and Montana Facility Finance Authority. The VHLM are also funded from the Coal Severance Tax Trust Fund. The Coal Severance Tax Trust Fund loan portfolio also includes loans made by the Montana Science and Technology Alliance (MSTA) Board. The MSTA Board was abolished on July 1, 1999 and the MSTA portfolio was assigned to BOI.

(e) Investment Risk Disclosures are described in the following paragraphs, with more detail provided in later sections.

<u>Custodial Credit Risk</u>
Custodial credit risk for cash and cash equivalents and investments is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, BOI's custodial institution must hold short-term and long-term credit ratings by at least one Nationally Recognized Statistical Rating Organization (NRSRO) with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

As of June 30, 2018, all the public securities, as well as securities held by the separate public equity account managers, were registered in the nominee name for BOI and held in the possession of BOI's custodial bank. The equity index funds, securities held at the State's depository bank, real estate, mortgage and loan investments were purchased and recorded in BOI's name. Commingled fund investments are registered in the name of BOI.

<u>Concentration of Credit Risk</u>
Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the US government are excluded from the concentration of credit risk requirement. Concentration of credit risk for 2018 is addressed within all IPS as set by BOI.

<u>Credit Risk and Interest Rate Risk</u>
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Except for US government securities, the pools' fixed income instruments have credit risk as measured by NRSRO ratings. Credit risk is contemplated for each individual portfolio in the IPS. Credit risk is managed by constraining portfolio purchases

around investment grade NRSRO ratings as appropriate. The US government guarantees its securities directly or indirectly. Obligations of the US government, or obligations explicitly guaranteed by the US government, are not considered to have credit risk and do not require disclosure of credit risk.

The CAPP's cash equivalents' position held at its custodial bank was unrated, with approximately $330.3 million held in Money Market Funds and an additional $4.3 million held by the CAPP's fiscal agent as of June 30, 2018. BOI determined that there was no significant credit quality risk associated with the cash equivalents.

As a matter of STIP investment policy, BOI can only purchase securities from a pre-approved Approved Issuer list. By STIP policy, permitted money market investments include only SEC registered 2a-7 Institutional Money Market Funds that are considered US Treasury or US Government money market mutual funds according to the SEC regulations or short-term investment vehicle available through the custodial bank. As of June 30, 2018, all the STIP money market investments were in US Governmental Money Markets. BOI determined that there was no significant credit quality risk associated with the cash equivalents and did not suffer a loss event on the cash equivalents as of June 30, 2018.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. BOI uses effective duration as a measure of interest rate risk for all fixed income portfolios. CAPP, TFIP, and SMI at fair value investments are categorized to disclose credit and interest rate risk for fixed income securities. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using the weighted effective duration. The credit quality ratings have been calculated excluding non-rated investment types. NRSRO provides the credit ratings. According to the STIP investment policy, “The STIP portfolio will minimize interest rate risk by:

1. structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2. maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
3. STIP will maintain a reserve account.”

CAPP, TFIP, SMI, and STIP may hold fixed and variable rate securities. Interest payments on variable securities are based on an underlying reference rate, for example the London Interbank Offered Rate (LIBOR).

STIP investments at fair value are categorized to disclose credit risk and weighted average maturity (WAM) as of June 30, 2018. Credit risk reflects the weighted security quality rating by investment type as of the June 30 report date. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons (the time when investments are due or reset and payable in days, months or years) weighted to reflect the dollar size of the individual investments within an investment type. Inclusive of cash and cash equivalents, the WAM averages 46 days for the portfolio. Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value, BOI determined the cash equivalents to have little discernible interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. BOI's foreign currency exposure by denomination and investment type are reported, in US dollars, at fair value.

CAPP is the only IPS that allows for investments that can be held in non-US securities in a foreign currency. Per the CAPP IPS, the Investment Grade Credit Asset Class, Agency Mortgage Backed Securities Asset Class, and High Yield Asset Class sections have maximum restrictions that can be held. Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the US dollar value of investments made.

Other Policy Considerations

For other risk, BOI approves both the IPS and benchmark used for each portfolio. Per the CAPP IPS, the TIPS PAC, US Treasury/Agency PAC, Investment Grade Credit PAC, and Agency Mortgage-Backed PAC, average duration will be maintained in a range within 20% of the benchmark duration. The Broad Fixed Income PAC and High Yield PAC average duration will be maintained in a range within 25% of the index duration. Per the TFIP IPS, the average duration will be maintained in a range within 20% of the benchmark duration. Interest rate risk for SMI is contemplated in each

individual IPS and is managed by limiting the maturity of individual securities and/or matching liabilities to maturities per estimated cash flows.

Fair Value of Derivative Instruments
The UIP invests in currency forward contract, index futures (long duration) and rights which are classified as investment derivatives. The derivatives increase in fair value for the year ended June 30, 2018, by $170.0 thousand. The contracts had a fair value of $15.0 thousand, and the notional amount of the contracts was $818.0 thousand as of June 30, 2018.

STIP Reserve
In November 2007, the STIP reserve account was established. The STIP reserve account may be used to offset losses within the STIP portfolio. STIP distributes income to its participants based on accrued interest and discount amortization, net of fees and STIP reserve expense. Prior to the year ending June 30, 2018, the STIP reserve was reported as a liability, instead of as a component of BOI's fiduciary net position in accordance with GAAP. BOI restated the liability as an increase to fiduciary net position of $24.2 million as of July 1, 2017. The STIP reserve for the year ending June 30, 2018, is detailed as follows:

STIP Reserve
(in thousands)

Beginning STIP Reserve	$	24,235
Additions		
Interest Income		350
Other income		
Transfer of daily STIP income		4,192
Recoveries from write offs		3,626
Perm Coal enhancement fees		162
Total additions		8,330
Total STIP Reserve Activity	$	8,330
Ending STIP reserve	$	32,565

(2) The EDB deposits and investments are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. The bond trust indenture addresses custodial credit risk, concentration of credit risk, credit risk, interest rate and credit quality risk, by detailing the permitted investments. BOI's STIP IPS details custodial credit risk, concentration of credit risk, and credit risk. Deposits and investments must be made with Montana banks or in the STIP administered by BOI.

For the fiscal year ending June 30, 2018, BOI reevaluated the measurement of cash and cash equivalents, now reporting such investments at cost. Under GASB, cash equivalents can be reported under fair value or cost basis. BOI analyzed the immaterial difference of cash equivalents between their fair value and cost and determined the more relevant disclosure was under the cost method. The change did not cause a restatement of beginning net position due to the immaterial impact on beginning net position.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, BOI will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, BOI's custodial institution must hold short-term and long-term credit rating by at least one NRSRO with a minimum requirement of A1/P1 (short-term) and A3/A-1 (long-term).

Cash – Custodial risk for cash is the risk that, in the event of the failure of the custodial financial institution, the cash or collateral securities may not be recovered from an outside party. The securities used as collateral are held by the trustee in the name of BOI.

Investments – As of June 30, 2018, EDB securities were recorded by the trustee in the name of BOI by specific account.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. The EDB investments directly issued or explicitly guaranteed by the US government and investments in mutual funds are excluded from the concentration of credit risk requirement. The STIP investment policy limits concentration of credit risk by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities, as well as, any repurchase agreements with a financial institution. As of June 30, 2018, STIP concentration risk was within the policy as set by BOI.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The EDB's US government direct-backed securities, consisting of US Treasury notes and bills, are guaranteed directly by the US government. Obligations of the US government or obligations explicitly guaranteed by the US government are not considered to have credit risk and do not require disclosure of credit quality. Permitted investments, as described in the indenture, include, "Either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the bonds or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)."

BOI's STIP investment policy statement specifies that STIP securities have a minimum of two credit ratings as provided by nationally recognized statistical rating organizations, to assist in the monitoring and management of credit risk. The purchase of STIP securities other than US government or US agency obligations are restricted to those which are pre-approved. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Permitted investments as described in the Indenture details the allowable investments, including those in STIP. STIP interest rate risk is determined using the WAM method. According to the STIP IPS, "The STIP portfolio will minimize interest rate risk by:

1. structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby normally avoiding the need to sell securities on the open market prior to maturity;
2. maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
3. STIP will maintain a reserve account."

The EDB investments are categorized to disclose credit and interest rate risk as of June 30, 2018. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration as calculated by BOI. The credit quality ratings have been calculated excluding non-rated investment types. Both the credit quality ratings and duration have been calculated excluding cash equivalents, as management of BOI determined that these securities did not contain these risk elements. There were no derivative transactions during the 2018 fiscal year for investments held by the trustee. Based on their short weighted average maturity and the relative immaterial difference from their cost to fair value, BOI determined the cash equivalents to have little discernible interest rate risk and a loss event did not occur as of June 30, 2018.

B. Cash/Cash Equivalents

(1) Cash Deposits – The State requires collateralization based on the average daily bank balance in the depository bank holding the main state bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 – Cash Deposit Amounts
(in thousands)

		Carrying Amount
Cash held by State/State's agent	$	91,359
Uninsured and uncollateralized cash		8,214
Undeposited cash		512
Cash in US Treasury		316,605
Cash in MSU component units		8,065
Cash in UM component units		11,465
Less: outstanding warrants		(82,211)
	$	354,009

As of June 30, 2018, the carrying amount of deposits for component units was $182.5 million as included in Table 1.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the State Treasurer's pooled cash account, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less that are measured at cost. Cash equivalents may be under the control of BOI or other agencies, as allowed by law.

Table 2 - Cash Equivalents
(in thousands)

		Fair Value
Treasuries (1)	$	92,881
Corporate commercial paper (2)		288,944
Corporate notes (2)		225,121
Certificate of deposit (2)		546,591
Money market fund unrated		152,372
STIP cash and cash equivalents (2)		2,250,669
Less: STIP included in pooled investment balance		(111,156)
Total cash equivalents	$	3,445,422

(1) A portion is also included in the Investments Measured at Fair Value and NAV table.
(2) Also included in the Investments Measured at Fair Value and NAV table.

As of June 30, 2018, local governments had invested $1.2 billion and component units of the State of Montana had invested $412.7 million in STIP.

STIP Cash Equivalent Credit Quality Ratings
(in thousands)

		Total Fixed Income Investments at Fair Value	Credit Quality Rating
Treasuries	$	239,483	A-1+
Asset backed commercial paper		1,105,685	A-1
Corporate commercial paper		233,356	A-1+
Corporate notes		55,004	A-1+
Certificate of deposit		124,915	A-1
US government agency		351,707	A-1+
US Government money market funds		140,357	A-1+
Cash held at fiscal agent		162	NR
Total cash equivalents	$	2,250,669	

STIP
Credit Quality Rating and Weighted Average of Maturity as of June 30, 2018
(in thousands)

Security Investment Type	Total Fixed Income Investments at Fair Value	Credit Quality Rating	WAM (Days)
Treasuries	$ 19,900	A-1+	97
Corporate:			
Commercial Paper	288,944	A-1	71
Notes	225,121	A-1+	67
Certificates of Deposit	546,591	A-1	42
Total STIP fixed income investments at fair value	$ 1,080,556		

C. Equity in Pooled Investments

These securities consist of investments held by BOI in pooled investment funds. The Consolidated Asset Pension Pool (CAPP) and Trust Funds Investment Pool (TFIP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated "Prudent Expert Principle" (see Table 3 – Equity in Pooled Investments).

Table 3 – Equity in Pooled Investments
(in thousands)

	Fair Value [1]
CAPP:	
Consolidated asset pension pool	$ 11,315,343
TFIP:	
Trust funds investment pool	2,333,070
Total pooled investments	13,648,413
Pool adjustments (net)	599
Total equity in pooled investments	$ 13,649,012

(1) Includes cash/cash equivalents and investments.

As of June 30, 2018, the fair value of the underlying securities on loan was $937.7 million. Collateral provided for the securities on loan totaled $957.5 million, consisting of $106.2 million in cash and $851.3 million in securities.

As of June 30, 2018, local governments invested $12.0 million in TFIP.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2018, as required for applicable pools.

Credit Quality Rating and Effective Duration as of June 30, 2018
Fair Value (in thousands)

Security Investment Type	CAPP	TFIP	SMI	Total Fixed Income Investments at Fair Value	Credit Quality Ratings Range	Effective Duration (Years)
Treasuries	$ 1,226,714	$ 536,787	$ 330,905	$ 2,094,406	AAA	3.61-7.59
Agency or Government Related	130,363	137,558	264,686	532,607	AAA	3.06-6.06
Asset Backed Securities	14,743	81,854	44,314	140,911	AAA	2.07-2.74
Mortgage Backed Securities:						
Noncommercial	480,163	446,905	38,563	965,631	AAA	5.11-5.82
Commercial	56,498	144,288	16,406	217,192	AAA	4.36-6.12
Corporate:						
Financial	261,035	275,280	250,987	787,302	BBB+, A-	3.15-4.46
Industrial	431,025	416,570	316,685	1,164,280	BB+, A	4.09-6.66
Utility	24,967	23,463	21,413	69,843	BBB, BBB+	2.75-4.69
High Yield Bond Fund	—	100,994	—	100,994	B	3.64
Total fixed income investments at fair value	$ 2,625,508	$ 2,163,699	$ 1,283,959	$ 6,073,166		

State of Montana investments are measured at fair value and categorized within the fair value hierarchy established by GASB Statement No. 72 – *Fair Value Measurement and Application*, as defined below.

CAPP, STIP, and SMI – Fixed income and equity investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

CAPP – Residential Mortgages classified in Level 3 of the fair value hierarchy are present value adjusted. Direct real estate classified in Level 3 of the fair value hierarchy are based on the latest appraisal value.

Pools and SMI – Investments measured at cost are included to account for all investments within each pool and SMI. These assets represent cash equivalents and Montana Mortgages and Loans.

Each of the investment pools and SMI have the following fair value measurements as of June 30, 2018:

Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2018	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments:				
Treasuries	$ 2,114,306	$ 2,114,306	$ —	$ —
Agency or Government Related	532,607	—	532,607	—
Asset Backed Securities	140,911	—	140,911	—
Mortgage Backed Securities	965,631	—	965,631	—
Commercial Mortgage Backed Securities	217,192	—	217,192	—
Corporate:				
Commercial Paper	288,944	—	288,944	—

Investments Measured at Fair Value
(in thousands)

	June 30, 2018	Fair Value Measurements Using: Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Commercial Notes	225,121	—	225,121	—
Certificates of Deposit	546,591	—	546,591	
Financial	787,302	—	787,302	—
Industrial	1,164,280	—	1,164,280	—
Utility	69,843	—	69,843	—
Equity investments:				
Consumer Discretionary	269,082	269,082	—	—
Consumer Staples	71,850	71,850	—	—
Energy	108,933	108,933	—	—
Financials	267,097	267,097	—	—
Health Care	228,681	228,681	—	—
Industrials	274,462	274,462	—	—
Information Technology	444,999	444,999	—	—
Materials	90,942	90,942	—	—
Mutual Funds	2,233,394	2,233,394	—	—
Real Estate	41,022	41,022	—	—
Telecommunication Services	12,920	12,920	—	—
Utilities	30,738	30,738	—	—
International equity investments:				
Consumer Discretionary	111,748	111,748	—	—
Consumer Staples	84,360	84,360	—	—
Energy	50,331	50,331	—	—
Financials	154,819	154,819	—	—
Health Care	54,635	54,635	—	—
Industrials	116,210	116,210	—	—
Information Technology	128,410	128,410	—	—
Materials	37,300	37,300	—	—
Mutual Funds	270,338	270,338	—	—
Private Placement	1,239	1,239	—	—
Real Estate	13,427	13,427	—	—
Rights/Warrants	15	15	—	—
Telecommunication Services	12,031	12,031	—	—
Utilities	4,876	4,876	—	—
Direct Real Estate	19,185	—	—	19,185
Residential Mortgages	3,861	—	—	3,861
Total investments by fair value level	$ 12,189,633	$ 7,228,165	$ 4,938,422	$ 23,046
Investments measured at the net asset value (NAV)				
Commingled Equity Index Funds	1,116,165			
Private Equity – Private Equity Partnerships	1,365,239			
Core Real Estate	557,350			
Non-core Real Estate	396,524			
Timber	110,153			
High Yield Bond Fund	100,994			
Total investments measured at NAV	3,646,425			
Total investments measured at fair value	15,836,058			

Investments Measured at Fair Value
(in thousands)

	June 30, 2018	Fair Value Measurements Using: Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments not required to be categorized				
Cash and cash equivalents held at custodial bank	2,585,318			
Montana Mortgages and Loans at cost	180,618			
Total investments not categorized	2,765,936			
Total investments	$ 18,601,994			

The investments measured at NAV for the year ended June 30, 2018, are detailed below.

	Fair Value	Investments Measured at NAV (in thousands): Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
CAPP				
Commingled Equity Index Funds	$ 936,139	$ —	Daily	1 day
Private Equity – Private Equity Partnerships	1,365,239	938,879		
Core Real Estate	329,903	80,000	Monthly, quarterly	45-90 days
Non-core Real Estate	396,524	285,064		
Timber	110,153	17,657		
Total investments measured at the NAV	$ 3,137,958	$ 1,321,600		
TFIP				
Core Real Estate	138,538		Monthly, quarterly	45-90 days
High Yield Bond Fund	100,994		Monthly	30 days
Total investments measured at NAV	$ 239,532			
SMI				
Core Real Estate	88,909		Monthly, quarterly	45-90 days
Commingled Equity Index Funds	180,026		Daily	1 day
Total investments measured at NAV	$ 268,935			

STIP and $1.7 billion of SMI are included, and also reported in Tables 2 and 4, respectively.

Commingled Equity Index Funds – This type consists of institutional investment funds that invest in domestic equities and funds that invest in international equities. The fair values of these investments use the NAV per share (or its equivalent) of the investments.

High Yield Bond Fund – This type consists of predominantly US corporate credits, whether in the form of bonds or loans, that are rated below investment grade. These assets carry a higher risk of default than investment grade securities and accordingly provide a higher level of income or yield commensurate with that risk. The fair values of these investments use the NAV per share (or its equivalent) of the investments.

Core Real Estate – This type includes funds that invest primarily in core real estate, which makes equity investments in operating and substantially-leased institutional quality real estate in traditional property types (apartments, office, retail, industrial and hotel), through commingled funds. The primary investment objectives of these core real estate funds are to invest in real estate that will generate income from predictable sources of revenue and not to realize gains on the underlying assets. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital. Redemption of these investments is restricted based on the availability of cash flow arising from investment transactions, sales, and other fund operations occurring in the ordinary course of business. Therefore, requested redemptions from a fund will be redeemed as funds become available.

Non-Core Real Estate – This type includes private partnership funds that primarily invest in value added and opportunistic real estate funds. These funds assume more risk than the core real estate funds in order to achieve a greater return on investment. Returns are driven both by current income and by expected capital appreciation. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 7 to 10 years. These investments can never be redeemed with the funds. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital.

Timber – This type includes private partnership funds that primarily invest in timber funds. The underlying assets of these types of funds are typically made of tree farms and managed forest. Returns come from biological growth, upward product class movement, and appreciation in timber and land prices. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 12 to 20 years; these investments can never be redeemed with the funds. The fair values of these investments use the NAV per share (or its equivalent) of BOI's ownership interest in the partners' capital.

Private Equity Partnerships – This type includes investments in limited partnerships. Generally, the types of partnership strategies included in this portfolio are: venture capital, growth equity, buyouts, special situations, mezzanine, and distressed debt. These investments and are considered illiquid. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying partnership investments are realized. It is expected that the underlying assets of the funds will be liquidated over 10 years. It is probable all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of BOI's ownership interest in partners' capital.

As of the June 30, 2018, exchange date, BOI's foreign currency exposure by deposits and investment type are reported, in US dollars, at fair value in the table below. Excluded are the foreign investments denominated in US dollars for the American Depositary Receipts, sovereign debt and commingled index funds.

Foreign Currency Exposure by Country
(in thousands)

Foreign Currency Denomination	Currency	Equities	Private Equity	Real Estate
Australian Dollar	$ —	$ 23,306	$ —	$ —
Brazilian Real	—	14,814	—	—
Canadian Dollar	65	53,456	—	—
Danish Krone	—	13,104	—	—
EMU – Euro	46	168,668	21,400	2,000
Hong Kong Dollar	1	37,984	—	—
Indonesian Rupiah	25	623	—	—
Korean Fortnit	4	15,946		
Japanese Yen	322	109,401	—	—
Malaysian Ringgit	16	2,626	—	—
Mexican Peso	2	2,430	—	—
New Israeli Sheqel	—	3,686	—	—
New Zealand Dollar	—	238	—	—
Norwegian Krone	—	11,022	—	—
Philippine Peso	1	1,201	—	—
Phillippine Piso	—	34		
Polish Zloty	3	2,161	—	—
Pound Stering	248	103,975		
Singapore Dollar	77	12,089	—	—
South African Rand	—	14,129	—	—
South Korean Won	—	25,224	—	—
Swedish Krona	—	22,659	—	—
Swiss Franc	—	32,240	—	—
New Taiwan Dollar	—	4,887	—	—
Thailand Baht	6	5,141	—	—
Yuan Renminbi	94	7,774	—	—
Total cash and securities	$ 910	$ 688,818	$ 21,400	$ 2,000

Investments in alternative equity are usually made through limited partnership agreements that involve many limited partners and a general partner who is responsible for all investment decisions. The limited partners make an original commitment, after which capital is called as needed by the general partner to make investments. These agreements will usually last for a minimum of 10 years. The table below shows the remaining BOI commitments to CAPP alternative equity managers by pension asset class (PAC), as of June 30, 2018.

Commitments to Fund Managers
(in thousands)

Pool	Original Commitment	Commitment Remaining
Private Equities PAC	$ 2,580,722	$ 807,355
Real Estate PAC	1,655,262	365,064
Natural Resources PAC	420,000	149,181
Total	$ 4,655,984	$ 1,321,600

D. Investments

Article VIII of Montana's Constitution, with supporting statutes, authorizes BOI to manage the State's Unified Investment Program. Long-term investments are administered by the following agencies, as allowed by state law, Section 17-6-201, MCA:

Long-term Investments

Department	Percent Administered
Board of Investments	50.97%
Universities	19.06
MPERA (Montana Public Employee Retirement Administration)	22.14
College Savings Plan	4.71
Montana Board of Housing	1.67
Other (1)	1.45
Total	100.00%

(1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Commerce, the Department of Natural Resources and Conservation, the Department of Public Health and Human Services, the Department of Revenue, and State Auditor.

BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to BOI's custodial bank or trustee. State investments are categorized within the fair value hierarchy established by GASB Statement No. 72.

The PERS Defined Contribution Retirement Plan (DCRP) and the Deferred Compensation Plan's Montana Fixed Fund is a stable value investment option administered by outside vendors; Pacific Investment Management Company LLC (PIMCO), custodial bank State Street Bank and Trust Company (State Street), and third-party synthetic Guaranteed Interest Contract (GIC) providers, Transamerica Life Insurance Company (Transamerica), Prudential Insurance Company of America (Prudential) and Voya Retirement Insurance & Annuity Company (Voya). All money invested in the Montana Fixed Fund (stable value investment option) of the PERS-DCRP and Deferred Compensation Plan are held in a Pooled Trust. The third party record keeper, Empower ™ Retirement, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies.

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2018	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government				
Investments by fair value level				
Treasuries (1)	$ 8,823	$ 8,823	$ —	$ —
Agency/Government Related (1)	47,962	—	47,962	—
Government Securities	5,958	3,867	2,091	—
Stocks	5,447	5,447	—	—
Other	19,166	—	19,166	—
Total investments at fair value	87,356	18,137	69,219	—
Investments at cost				
Montana Mortgages and Loans (3)	180,618			
Total investments at cost	180,618			
Total primary government	267,974			
Component units/fiduciary funds				

Table 4 – Investments
(in thousands)

	Fair Value June 30, 2018	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Treasuries (1)	272,324	272,324	—	—
Agency/Government Related (1)	216,724	—	216,724	—
Asset Backed Securities (1)	44,314	—	44,314	—
Mortgage Backed Securities (1)	38,563	—	38,563	—
Commercial Mortgage Backed Securities (1)	16,406	—	16,406	—
Financial-Corporate (1)	250,987	—	250,987	—
Industrial-Corporate (1)	316,685	—	316,685	—
Utility-Corporate (1)	21,413	—	21,413	—
529 College Savings Plan	154,733	—	154,733	—
VEBA	6,956	—	6,956	—
State Auditor	10,082	—	10,082	—
MSU Component Unit Investments (2)	295,063	153,063	44,027	97,973
UM Component Unit Investments (2)	175,380	130,426	34,012	10,942
Board of Housing (2)	53,249	20,872	32,377	—
Total investments at fair value	1,872,879	576,685	1,187,279	108,915
Investments at net asset value (NAV)				
Core Real Estate	88,909			
Commingled Equity Index Funds	180,026			
Deferred Compensation (2)	501,608			
Defined Contribution (2)	225,634			
UM Component Unit Investments (2)	123,987			
UM Other Investments (2)	612			
UM Interest in Split Interest (2)	4,239			
Total investments at NAV	1,125,015			
Investments at cost				
MSU Component Unit Investments (2)	26,390			
Board of Housing (2)	1,742			
Total Investments at Cost	28,132			
Total component unit/fiduciary investments	3,026,026			
Total investments	$ 3,294,000			
Securities lending investment pool	$ 14,392			

(1) The credit quality rating and duration are included in above sections for the rated investments.

(2) For more detail, refer to component unit separately issued financial statements.

(3) The total for Montana Mortgages and Loans does not include Coal Severance Tax loans, which was included on SMI financial statements. This amount of $9.7 million is considered advances to other funds/component units and amounts due from component units in the Coal Tax Severance column of the governmental fund financial statements.

As of June 30, 2018, the fair value of the investments on loan was $131.4 million. Collateral provided for the investments on loan totaled $134.1 million consisting of $14.4 million in cash and $119.7 million in securities.

$1.7 billion of SMI is included, and also reported in the Investments Measured at Fair Value and NAV table.

EDB – Rated Securities
Credit Quality Rating and Effective Duration as of June 30, 2018
(in thousands)

Security Investment Type		Fair Value	Credit Quality Rating (1)	Effective Duration (1)
Short-term investments				
US Treasury obligations	$	3,182	AA	0.24
US Agency obligations		1,080	AA	0.63
Restricted investments				
US Treasury obligations		685	AA	2.42
Total investments	$	4,947		

(1) Credit Quality Rating and Effective Duration are weighted.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Accounts receivable, accounts payable, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position as of June 30, 2018, consisted of the following (in thousands):

A. Accounts Receivables

	Governmental Activities						
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant	Nonmajor Governmental Funds	State Special Revenue
Charges for services/fines/forfeitures	$ —	$ 6,156	$ 1,054	$ 556	$ —	$ —	$ 10,416
Contributions/premiums	—	—	—	6,909	—	—	1,790
Grants/contracts/donations	—	11	—	—	—	—	351
Investment income	3,225	—	1,350	217	1,956	3,549	4,229
License and permits	—	—	—	—	—	—	7,785
Other receivables	—	49,019	8,133	—	—	—	146
Reimbursements/overpayments	—	133	14,587	—	—	—	14,919
Taxes	7,244	—	387,843	—	—	2,474	99,298
Total receivables	10,469	55,319	412,967	7,682	1,956	6,023	138,934
Less: allowance for doubtful accounts	—	(2,085)	(127,081)	(17)	—	—	(18,116)
Receivables, net	$ 10,469	$ 53,234	$ 285,886	$ 7,665	$ 1,956	$ 6,023	$ 120,818

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Charges for services	$ —	$ 26,927	$ —
Contributions/premiums	—	5,017	5,662
Loans/investment income	10,675	191	—
Other receivables	263	80	—
Reimbursements/overpayments	—	—	1,819
Total receivables	10,938	32,215	7,481
Less: allowance for doubtful accounts	—	(495)	(3,363)
Receivables, net	$ 10,938	$ 31,720	$ 4,118

B. Deferred Outflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
OPEB deferred outflows [(1)]	$ —	$ 895	$ 58	$ —	$ —
Pension deferred outflows [(2)]	26	354,870	13,926	—	105
Refunding deferred outflows	—	—	—	3,006	—
Total deferred outflows	$ 26	$ 355,765	$ 13,984	$ 3,006	$ 105

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
OPEB deferred outflows [(1)]	$ —	$ 17
Pension deferred outflows [(2)]	90	3,904
Total deferred outflows	$ 90	$ 3,921

(1) Further detail regarding OPEB related deferred outflows of resources is provided in Note 7.

(2) Further detail regarding pension related deferred outflows of resources is provided in Note 6.

C. Accounts Payables

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
Accrued interest	$ 4	$ 369	$ 21	$ 2,267	$ 51
Payroll	7,714	21,139	3,760	37	20,882
Tax refunds	—	169,494	—	—	—
Vendors/individuals	280,290	68,069	10,932	2,408	156,870
Payables, net	$ 288,008	$ 259,071	$ 14,713	$ 4,712	$ 177,803

	Business-type Activities		
	Economic Development Bonds	Nonmajor Enterprise Funds	Unemployment Insurance
Accrued interest	$ 578	$ 4	$ —
Payroll	20	1,037	—
Vendors/individuals	6	19,868	2,204
Payables, net	$ 604	$ 20,909	$ 2,204

D. Deferred Inflows of Resources

	Governmental Activities				
	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue
OPEB deferred inflows [1]	$ —	$ 4,358	$ 280	$ —	$ —
Pension deferred inflows [2]	1	66,962	1,389	—	24
Refunding deferred inflows	—	—	—	530	—
Total deferred inflows	$ 1	$ 71,320	$ 1,669	$ 530	$ 24

All deferred inflows of resources in the governmental fund financial statements consist of unavailable revenue.

	Business-type Activities	
	Economic Development Bonds	Nonmajor Enterprise Funds
OPEB deferred inflows [1]	$ 2	$ 84
Other deferred inflows	—	5
Pension deferred inflows [2]	15	725
Total deferred inflows	$ 17	$ 814

[1] Further detail regarding OPEB related deferred inflows of resources is provided in Note 7.

[2] Further detail regarding pension related deferred inflows of resources is provided in Note 6.

NOTE 5. CAPITAL ASSETS

Changes in capital asset balances for the fiscal year ended June 30, 2018, are reflected in the following table (in thousands):

Governmental Activities	Beginning Balance	Increases [1]	Decreases [1]	Ending Balance
Capital assets not being depreciated:				
Land	$ 694,036	$ 25,847	$ (800)	$ 719,083
Construction work in progress	835,991	337,733	(246,647)	927,077
Easements	181,017	11,570	—	192,587
Museum and art [2]	84,581	859	—	85,440
Other [2]	28,889	393	—	29,282
Total capital assets not being depreciated	1,824,514	376,402	(247,447)	1,953,469
Capital assets being depreciated:				
Infrastructure	5,273,579	273,138	(116,767)	5,429,950
Land improvements	62,272	3,236	—	65,508
Buildings/improvements	600,939	8,904	(18,549)	591,294
Equipment	379,018	31,349	(12,864)	397,503
Easements - amortized	1,523	—	(73)	1,450
Other	7,197	246	(2,041)	5,402
Total capital assets being depreciated	6,324,528	316,873	(150,294)	6,491,107
Less accumulated depreciation for:				
Infrastructure	(1,546,498)	(177,612)	108,261	(1,615,849)
Land improvements	(27,623)	(2,984)	176	(30,431)
Buildings/improvements	(374,600)	(19,762)	10,927	(383,435)
Equipment	(239,325)	(22,155)	7,856	(253,624)
Other	(5,825)	(226)	2,009	(4,042)
Total accumulated depreciation	(2,193,871)	(222,739)	129,229	(2,287,381)
Total capital assets being depreciated, net	4,130,657	94,134	(21,065)	4,203,726
Intangible assets	36,793	10,410	(13,705)	33,498
Governmental activities capital assets, net	$ 5,991,964	$ 480,946	$ (282,217)	$ 6,190,693

(1) The increases and decreases noted above include adjustments related to prior periods and correction of errors.

(2) The restatement of beginning balance from museum and art to other is due to a correction of prior period reclassification.

Business-type Activities	Beginning Balance	Increases (1)	Decreases (1)	Ending Balance
Capital assets not being depreciated:				
Land	$ 800	$ —	$ —	$ 800
Construction work in progress	4,615	3,375	(199)	7,791
Other	4,309	10	(68)	4,251
Total capital assets not being depreciated	9,724	3,385	(267)	12,842
Capital assets being depreciated:				
Infrastructure	1,175	—	—	1,175
Land improvements	3,830	—	—	3,830
Buildings/improvements	10,123	23	—	10,146
Equipment	9,375	309	(138)	9,546
Total capital assets being depreciated	24,503	332	(138)	24,697
Less accumulated depreciation for:				
Infrastructure	(708)	(19)	—	(727)
Land improvements	(1,766)	(149)	—	(1,915)
Buildings/improvements	(6,185)	(318)	—	(6,503)
Equipment	(6,362)	(552)	69	(6,845)
Total accumulated depreciation	(15,021)	(1,038)	69	(15,990)
Total capital assets being depreciated, net	9,482	(706)	(69)	8,707
Intangible assets	194	—	(116)	78
Business-type activities capital assets, net	$ 19,400	$ 2,679	$ (452)	$ 21,627

The increases and decreases noted above include adjustments related to prior periods and corrections of errors.

Depreciation expense was charged to governmental functions as follows (in thousands):

	Depreciation (2)
General government	$ 8,248
Public safety	7,474
Transportation, including depreciation of the highway system maintained by the State	180,824
Health and human services	2,768
Education	253
Natural resources, including depreciation of the state's dams	10,466
Depreciation on capital assets held by the internal service funds	12,706
Total depreciation expense – Governmental Activities	$ 222,739

Depreciation expense was charged to business-type activities as follows (in thousands):

	Depreciation (2)
Liquor Stores	$ 142
State Lottery	51
Prison Funds	559
West Yellowstone Airport	233
Other Enterprise Funds	53
Total depreciation expense – Business-type Activities	$ 1,038

Depreciation expenses noted above include adjustments related to prior periods and correction of errors.

NOTE 6. RETIREMENT PLANS

A. General

The funding policies for each plan provide for periodic employee, employer, and State of Montana (State) nonemployer contributions at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in an annual actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the Entry Age Actuarial Cost Method, with both normal cost and amortization of the unfunded actuarial liability determined as a level percentage of payrolls. Benefits are established by state law and can only be amended by the Legislature.

Montana State Fund, a discretely presented component of the State, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, there will be a variance between the note disclosures and the financial statements for some pension related items.

Public Employees' Retirement Board

The Public Employees' Retirement Board (PERB) oversees eight defined benefit plans: Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP); Judges' Retirement System (JRS); Highway Patrol Officers' Retirement System (HPORS); Sheriffs' Retirement System (SRS); Game Wardens' and Peace Officers' Retirement System (GWPORS); Municipal Police Officers' Retirement System (MPORS); Firefighters' Unified Retirement System (FURS); and Volunteer Firefighters' Compensation Act (VFCA). The PERB also oversees two defined contribution plans: Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) and the 457-Deferred Compensation Plan (457 Plan). The PERB also oversees education funds related to the pension plans. All of the benefit plans, defined benefit and defined contribution, are administered by the Montana Public Employees' Retirement Administration (MPERA). Separately issued financial statements and actuarial reports can be obtained at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131. The financial statements and the latest actuarial valuation may also be attained here: http://mpera.mt.gov/. The financial statements for the PERS-DBRP include activity for the defined benefit plan and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution plan and the associated education fund.

The PERB is an independent, seven-member board, appointed by the Governor. The members are assigned five-year, staggered terms. The PERB consists of two members at large, two active defined benefit public employees, one active defined contribution public employee, one member experienced in investments, and one retired public employee. The PERB approves the annual operating budget, developed by MPERA management, before the beginning of the fiscal year. As governed by statute, the PERB's defined benefit administrative expenses may not exceed 1.5% of the total defined benefit plan retirement benefits paid. In addition, the PERB decides legislative policy and priorities, hires the executive director, establishes the policies and procedures that govern operations at MPERA, and hear and rule on appeal matters of disabilities, retirees, and members. PERB members do not receive compensation for their service to the MPERA, but are reimbursed for necessary expenses incurred while serving.

All defined benefit pension plans provide retirement, disability, and death benefits to the plan members and their beneficiaries. The PERS-DCRP Disability OPEB Plan provides a defined benefit for disabled members of the PERS-DCRP. Beneficiaries do not receive disability benefits but may attain retirement benefits from the PERS-DCRP. A summary of the plan eligibility and benefits are found in the Summary of Benefits sections throughout Note 6.

Teachers' Retirement System

The Teachers' Retirement System (TRS) is a defined benefit plan administered by the Teachers Retirement Board (TRB). The plan prepares a publicly issued comprehensive annual financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements, actuarial valuations and experience studies can be obtained at 1500 East Sixth Avenue, PO Box 200139, Helena, MT 59620-0319; or can be found online at https://trs.mt.gov/.

The TRB consists of six members, all of which are appointed by the Governor. Three TRB members must be teaching professionals who, when appointed, are active members of TRS; at least one of them must be an active classroom teacher. One TRB member must be a retired teacher who was a member of TRS at the time of retirement. Two TRB

members are appointed from the public at large. TRB members serve staggered five-year terms. Three TRB members constitutes a quorum.

A summary of the number of participating employer and nonemployer contributing entities as of June 30, 2018, follows:

Classification of Participant	GWPORS	PERS-DBRP	PERS-DCRP	SRS	MPORS	FURS	VFCA	TRS
Employer	7	544	316	57	33	27	235	365
Nonemployer contributing entity	—	1	—	—	1	1	1	1
Total Participants	7	545	316	57	34	28	236	366

There are approximately 700 State employees who are eligible to participate in defined benefit pension plans, other than the plans listed above.

B. Summary of Significant Accounting Policies

The MPERA prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to/deductions from fiduciary net position, the items have been determined on the same accrual basis as they are reported by the MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. The MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

The TRS prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position of the TRS, and additions to/deductions from TRS's fiduciary net position, the items have been determined on the same accrual basis as they are reported by the TRS. For this purpose, plan contributions are recognized as of employer payroll paid dates. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The TRS adheres to all applicable GASB statements.

The pension trust fund financial statements presented in this report are prepared using the accrual basis of accounting in the same manner as that described for the pension plan administrators above.

C. Public Employee Defined Benefit Retirement Plan

A summary of classes of members in JRS, HPORS, GWPORS, PERS-DBRP, SRS, MPORS, FURS, VFCA, TRS, PERS-DCRP, and 457-Deferred Compensation covered by benefit terms at June 30, 2018, follows:

Type of Plan for Reporting Purposes	Single-Employer Defined Benefit			Multi-Employer Defined Benefit						Multi-Employer Defined Contribution	
Plan Designation	JRS	HPORS (1)	GWPORS	PERS-DBRP(2)	SRS	MPORS (1)	FURS	VFCA	TRS	PERS-DCRP	457-DC
Classification of Member											
Active	55	233	1,010	28,646	1,429	787	691	2,029	19,267	2,690	4,904
Inactive entitled to, but not yet receiving, benefits or a refund:											
Vested	3	14	123	3,793	129	78	41	815	1,772	559	4,484
Nonvested	1	23	382	17,973	539	153	66	—	13,967	724	—
Inactive members and beneficiaries currently receiving benefits:											
Service retirements(3)	64	319	298	21,901	629	748	623	1,469	15,933	97	—
Disability retirements	1	7	3	158	27	32	9	1	—	8	—
Survivor benefits(4)	5	12	11	497	25	32	20	4	—	2	—
Total Membership	129	608	1,827	72,968	2,778	1,830	1,450	4,318	50,939	4,080	9,388

(1) Includes DROP in the Active count.

(2) The inactive Nonvested count includes dormant accounts that were previously not counted.

(3) Includes "Alternative Payees" and "Death After Retirement" benefit payments. As of Fiscal Year 2018, the TRS plan stopped reporting separate benefit recipient categories.

(4) Includes "Death Before Retirement" benefit payments.

A summary of pension liability, pension assets, net pension liability/(asset), pension expense/(income), deferred outflows of resources, and deferred inflows of resources by plan and total for the State as an employer entity reported as of June 30, 2018, based on a June 30, 2017, actuarial valuation, follows with amounts presented in thousands:

System	Employer's Total Pension Liability	Employer's Pension Assets	Employer's Net Pension Liability/(Asset)	Employer's Pension Expense/ (Income)	Employer's Deferred Outflows of Resources	Employer's Deferred Inflows of Resources
JRS	$ 60,798	$ 96,653	$ (35,855)	(1,291)	$ 4,631	$ 1,172
HPORS	218,922	140,537	78,385	9,107	13,919	299
GWPORS	213,201	175,841	37,360	7,386	14,653	703
PERS-DBRP	3,936,327	2,903,127	1,033,200	127,773	230,916	21,056
SRS	19,767	16,071	3,696	50	3,404	5,410
FURS	11,360	8,835	2,525	458	1,051	19
TRS	161,230	113,003	48,227	12,062	29,886	1,820
Totals	$ 4,621,605	$ 3,454,067	$ 1,167,538	$ 155,545	$ 298,460	$ 30,479

(1) State as the Single Employer

<u>Judges' Retirement System</u> – The JRS, administered by the MPERA, is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5, MCA (Montana Code Annotated). This plan provides retirement benefits for all Montana judges of the district courts, justices of the Supreme Court, the Chief Water Judge, and the Associate Water Judge. Benefits are established by state law and can only be amended by the Legislature. The

JRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights are vested after five years of service.

Summary of Benefits

Member's current salary[1] or highest average compensation (HAC)[2]
[1]Hired prior to July 1, 1997, and non-Guaranteed Annual Benefit Adjustment (GABA) – monthly compensation at time of retirement;
[2]Hired on or after July 1, 1997, or electing GABA – HAC during any consecutive 36 months;
[2]Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit
Age 60, 5 years of membership service;
Any age with 5 years of membership service – involuntary termination, actuarially reduced.

Vesting
5 years of membership service.

Monthly benefit formula
3⅓% of current salary[1] (non-GABA) or HAC[2] (GABA) per year of service credit for the first 15 years of service credit, plus 1.785% per year for each year after 15 years.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA)
If hired prior to July 1, 1997, and member did not elect GABA – current salary of an active member in same position is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Plan members are required to contribute 7.0% of the member's monthly compensation.

Employer contributions to the system – As the employer, the State is required to contribute 25.81% of a member's compensation until January 1, 2018, at which time the contribution rate is reduced to 0%.

Actuarial Assumptions

The total pension liability/(asset) used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability/(asset) to June 30, 2017. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability/(asset). Among those assumptions were the following:

• Investment Return	7.65%
• Admin Expense as a % of Payroll	0.17%
• General Wage Growth	3.50%
• Inflation at	2.75%

- Merit Increases None
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit:
    - 3% for members electing GABA or hired on or after July 1, 1997
    - Current salary of an active member in the same position, if hired prior to July 1, 1997, and not electing GABA
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension asset was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the JRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2103. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the JRS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the JRS's target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability/(asset) to changes in the discount rate, the table below presents the net pension liability/(asset) calculated using the discount rate of 7.65%, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
JRS Net Pension (Asset)	$ (29,908)	$ (35,855)	$ (40,986)

Net Pension Asset

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the JRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension asset (NPA), pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

(dollars presented in thousands)

	Net Pension Liability (Asset) as of 6/30/16	Net Pension Liability (Asset) as of 6/30/17	Percent of Collective NPA
Employer's Proportionate Share	$ (33,852)	$ (35,855)	100%

At June 30, 2018, the employer reported a net pension asset of $35.9 million for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The employer's proportion of the net pension asset was based on the employer's contributions received by JRS during the measurement period July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of the JRS participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality assumption was updated

Changes in benefit terms: The following changes to plan provisions were identified:

1. Refunds
   a. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
   b. Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.
   c. Trust, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump sum payment.
2. Interest credited to member accounts
   a. Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.
3. Lump-sum payouts
   a. Effective July 1, 2017, lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension asset and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension asset.

Other Items Related to and Changes in Net Pension Asset

	(in thousands)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balances at 6/30/2016	$ 53,953	$ 87,805	$ (33,852)
Service Costs	1,628	—	1,628
Interest	4,044	—	4,044
Difference between Expected and Actual Experience	862	—	862
Changes of assumptions	3,865	—	3,865
Contributions – employer	—	1,800	(1,800)
Contributions – member	—	488	(488)
Net Investment Income	—	10,368	(10,368)
Benefit Payments	(3,554)	(3,554)	—
Administrative Expense	—	(254)	254
Net Changes	6,845	8,848	(2,003)
Balances at 6/30/2017	$ 60,798	$ 96,653	$ (35,855)

Pension Expense
At June 30, 2018, the employer recognized pension expense/(income) of $(1.3) million for the JRS.

Deferred Outflows and Inflows
At June 30, 2018, the employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $1.8 million.

As of the fiscal year ended June 30, 2018, remaining deferred outflows of resources and deferred inflows of resources related to the JRS are from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between projected and actual earnings on pension plan investments	$ —	$ 243
Changes of assumptions	2,899	—
Differences between expected and actual experience	647	929
Contributions paid to JRS subsequent to the measurement date – FY 2018 Contributions	1,085	—
Totals	$ 4,631	$ 1,172

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$ 16
2020	1,638
2021	1,443
2022	(723)
2023	—
Thereafter	—

Highway Patrol Officers' Retirement System – The HPORS, administered by the MPERA, is a single-employer defined benefit plan established in July 1, 1945, and governed by Title 19, chapters 2 & 6, MCA. This plan provides retirement benefits to all members of the Montana Highway Patrol, including supervisory personnel. Benefits are established by state law and can only be amended by the Legislature. The HPORS provides retirement, disability, and death benefits to plan members and their statutory beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights for death and disability are vested immediately. All other member rights are vested after 5 or 10 years of service.

Section 19-6-709, MCA provides eligible members retired prior to July 1, 1991, or their survivors, an annual supplemental lump-sum payment distributed each September. This lump-sum payment is funded by a statutory appropriation requested by the PERB from the General Fund. Factors impacting eligibility include the number of years the recipient has received a service retirement or disability benefit, the recipient's age, and whether the recipient is employed in a position covered by a retirement system under Title 19, MCA.

Deferred Retirement Option Plan (DROP)

Beginning October 1, 2015, eligible members of HPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 6, Part 10, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the HPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory employer contributions continue to the retirement system; mandatory employee contributions are deposited to the members DROP account. A monthly benefit is calculated based on salary and years of service to date as of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. The balance held by MPERA for HPORS DROP participants as of June 30, 2018, was approximately $1.2 million.

Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2013 – HAC during any consecutive 36 months;
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit
20 years of membership service, regardless of age.

Early Retirement
Hired prior to July 1, 2013 – 5 years of membership service, actuarially reduced from age 60.

Hired on or after July 1, 2013 – 10 years of membership service, actuarially reduced from age 60.

Vesting
Hired prior to July 1, 2013 – 5 years of membership service.
Hired on or after July 1, 2013 – 10 years of membership service.

Monthly benefit formula
Retire prior to July 1, 2013 – 2.5% of HAC per year of service credit.
Retire on or after July 1, 2013 – 2.6% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3.0% each January, inclusive of all other adjustments to the member's benefit.

Hired on or after July 1, 2013 – after the member has completed 36 full months of retirement, the member's benefit increase by a maximum of 1.5% each January, inclusive of all other adjustments to the member's benefit.

Minimum Monthly Benefit (non-GABA)
If hired prior to July 1, 1997, and member did not elect GABA – the minimum monthly benefit is equal to 2% of the service credit multiplied by the current base compensation of a probationary highway patrol officer. Any annual increase is limited to 5.0% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.

Contributions to the Plan
Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employer.
Hired prior to July 1, 1997, and not electing GABA – Plan members are required to contribute 13.00%.
Hired after June 30, 1997, and electing GABA – Plan members are required to contribute 13.05%.

Employer contributions to the system – As the employer, the State is required to contribute 38.33% of a member's compensation. The first 28.15% is payable from the same sources used to pay a member's compensation. The remaining amount, equal to 10.18%, is payable from the General Fund through a statutory appropriation.

Actuarial Assumptions
The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Administrative Expense as a % of Payroll 0.28%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0 to 6.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
    - If electing GABA or hired on or after July 1, 1997 – 3.00%
    - Hired on or after July 1, 2013 – 1.50%

    - Minimum Benefit Adjustment – Limited to 5% over the current benefit and may not exceed 60% of a newly confirmed officer
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension asset was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 10.18% of salaries paid by employers, however, this is considered an employer contribution since HPORS is a single-employer plan and the State is the only employer. Based on those assumptions, the HPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the HPORS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the HPORS's target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
HPORS Net Pension Liability	$ 108,542	$ 78,385	$ 53,937

Net Pension Liability

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the HPORS. GASB 68 became effective June 30, 2015, and includes requirements for participants to

record and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows or resources, and deferred outflows of resources associated with pensions.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
Employer's Proportionate Share	$ 71,779	$ 78,385	100%

At June 30, 2018, the employer reported a liability of $78.4 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The employer's proportion of the net pension liability was based on the employer's contributions received by HPORS during the measurement period July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of the HPORS participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality was updated.
5. The salary merit scale was updated.

Changes in benefit terms: The following changes in plan provisions were identified:

1. Working Retiree Limitations - Applies to retirement system members who return on or after July 1, 2017 to covered employment in the system from which they retired.
    a. Members who return for less than 480 hours in a calendar year:
        i. may not become an active member in the system; and
        ii. are subject to a $1 reduction in their retirement benefit for each $3 earned in excess of $5,000 in the calendar year.
    b. Members who return for 480 or more hours in a calendar year;
        i. must become an active member of the system;
        ii. will stop receiving a retirement benefit from the system; and
        iii. will be eligible for a second retirement benefit if they earn 5 or more years of service credit through their second employment.
    c. Employee, employer and state contributions apply as follows:
        i. Employer contributions and state contributions (if any) must be paid on all working retirees;
        ii. Employee contributions must be paid on working retirees who return to covered employment for 480 or more hours in a calendar year.
2. Second Retirement Benefit - Applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired.
    a. If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
        i. is not awarded service credit for the period of reemployment;
        ii. is refunded the accumulated contributions associated with the period of reemployment;
        iii. starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
        iv. does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA in January immediately following second retirement.
    b. If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
        i. is awarded service credit for the period of reemployment;
        ii. starting the first month following termination of service, receives:

1. the same retirement benefit previously paid to the member; and
2. a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and

iii. does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
1. on the initial retirement benefit in January immediately following second retirement; and
2. on the second retirement benefit starting in January after receiving that benefit for at least 12 months

c. A member who returns to covered service is not eligible for a disability benefit.

3. Refunds
   a. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
   b. Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.
   c. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump sum payment.
4. Interest credited to member accounts
   a. Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%
5. Lump-sum payout
   a. Effective July 1, 2017, lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

Other Items Related to and Changes in Net Pension Liability

(in thousands)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2016	$ 200,752	$ 128,973	$ 71,779
Service Costs	3,665	—	3,665
Interest	15,121	—	15,121
Difference expected and actual experience	2,774	—	2,774
Changes in assumptions	7,892	—	7,892
Contributions – employer	—	5,782	(5,782)
Contributions – non-employer	—	263	(263)
Contributions – member	—	1,950	(1,950)
Net Investment Income	—	15,099	(15,099)
Refund of Contributions	(245)	(245)	—
Benefit Payments	(11,037)	(11,037)	—
Administrative Expense	—	(248)	248
Net Changes	18,170	11,564	6,606
Balances at 6/30/2017	$ 218,922	$ 140,537	$ 78,385

Pension Expense

At June 30, 2018, the employer recognized pension expense of 9.1 million for the HPORS.

Deferred Outflows and Inflows

At June 30, 2018, the employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $5.7 million.

As of the fiscal year ended June 30, 2018, remaining deferred outflows of resources related to the HPORS are from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 2,156	$ —
Changes of assumptions	5,920	—
Net difference between projected and actual earnings on pension plan investments	—	299
Contributions paid to HPORS subsequent to the measurement date – FY 2018 Contributions	5,843	—
Totals	$ 13,919	$ 299

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(in thousands)

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$ 1,881
2020	3,867
2021	3,077
2022	(1,048)
2023	—
Thereafter	—

Game Wardens' & Peace Officers' Retirement System – The GWPORS, administered by the MPERA, is a multi-employer, cost-sharing defined benefit plan established in 1963, and governed by Title 19, chapters 2 & 8, MCA. This plan provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are established by state law and can only be amended by the Legislature. The GWPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation.

The State of Montana and its discretely presented component units are the only employers who participate in the GWPORS. Therefore, while the plan is considered to be a multi-employer, cost-sharing defined benefit plan for actuarial valuation purposes, in accordance with GASB 68, the plan is treated as if it were a single-employer defined benefit pension plan type for financial reporting.

Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit
Service Retirement
Age 50, 20 years of membership service.

Early Retirement (reduced benefit)
Age 55, vested members who terminate employment prior to 20 years of membership service.

Vesting
5 years of membership service.

Monthly benefit formula
2.5% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit:

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employers. Plan members are required to contribute 10.56% of member's compensation.

Employer contributions to the system – State agency and university employers are required to contribute 9.0% of a member's compensation.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of payroll 0.17%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0% to 6.30%

- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit:
  - 3.00% for members hired prior to July 1, 2007
  - 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension asset was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. Based on those assumptions, the GWPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the GWPORS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the GWPORS's target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis
In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Primary Government GWPORS Net Pension Liability	$ 66,423	$ 35,297	$ 10,179
Discretely Presented Component Units GWPORS Net Pension Liability	3,632	2,063	557
Total Employer GWPORS Net Pension Liability	$ 70,055	$ 37,360	$ 10,736

Net Pension Liability
In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the GWPORS. Statement 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
Primary Government Employer Proportionate Share	$ 31,020	$ 35,297	94.815012%
Discretely Presented Component Unit Share	1,829	2,063	5.184988%
Total Employer GWPORS Proportionate Share	$ 32,849	$ 37,360	100%

At June 30, 2018, the employer reported a total liability of $37.4 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The employer's proportion of the net pension liability was based on the employer's contributions received by GWPORS during the measurement period July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of GWPORS participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.

The following changes in method was identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms: The following changes in plan terms were identified:

1. Working Retiree Limitation applies to retirement system members who return on or after July 1, 2017, to covered employment in the system from which they retired.
2. Second Retirement Benefit applies to retirement system members who return on or after July 1, 2017, to active service covered by the system from which they retired.

3. Beneficiaries of GWPORS members who die prior to retirement are eligible for either a lump-sum benefit or a monthly survivor benefit. The monthly survivor benefit may be paid out as an option 1, 2, 3 or 4, at the survivor's discretion. Previously, statute provided for lump-sum payments only.
4. Refunds
   a. Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
   b. Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.
   c. Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump sum payment.
5. Interest credited to member accounts increased from 0.25% to 0.77%.
6. Lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability.

Other Items Related to and Changes in Net Pension Liability

The State, as the primary government employer, has the following balances and changes related to the GWPORS's Net Pension Liability:

(in thousands)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2016	$ 176,947	$ 145,928	$ 31,019
Service Costs	8,176	—	8,176
Interest	13,529	—	13,529
Difference between Expected and Actual Experience	3,549	—	3,549
Changes in assumptions	5,573	—	5,573
Contributions – employer	—	4,231	(4,231)
Contributions – member	—	5,004	(5,004)
Net Investment Income	—	17,626	(17,626)
Benefit Payments	(5,508)	(5,508)	—
Administrative Expense	—	(312)	312
Refunds of Contributions	(982)	(982)	—
Net Changes	24,337	20,059	4,278
Balances at 6/30/2017	$ 201,284	$ 165,987	$ 35,297

The State's discretely presented component units, as employers, have the following balances and changes related to the GWPORS's Net Pension Liability:

	(in thousands)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 6/30/2016	$ 10,587	$ 8,757	$ 1,830
Service Costs	446	—	446
Interest	740	—	740
Difference between Expected and Actual Experience	193	—	193
Changes in assumptions	305	—	305
Contributions - employer	—	231	(231)
Contributions - member	—	274	(274)
Net Investment Income	—	963	(963)
Benefit Payments	(300)	(300)	—
Administrative Expense	—	(17)	17
Refunds of Contributions	(54)	(54)	—
Net Changes	1,330	1,097	233
Balances at 6/30/2017	$ 11,917	$ 9,854	$ 2,063

Pension Expense

At June 30, 2018, the employer recognized a total pension expense of $7.4 million for its proportionate share of the GWPORS pension expense: $7.0 million related to the primary government and $361.4 thousand related to component units.

Deferred Outflows and Inflows

At June 30, 2018, the State, as a primary government employer, recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $4.2 million. As of the fiscal year ended June 30, 2018, remaining deferred outflows of resources and deferred inflows of resources for the primary government, as an employer, related to the GWPORS are from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 4,945	$ —
Net difference between projected and actual earnings on pension plan investments	—	514
Changes in assumptions	4,458	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	162	75
Contributions paid to GWPORS subsequent to the measurement date – FY 2018 Contributions	4,340	—
Totals	$ 13,905	$ 589

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$	1,483
2020		3,566
2021		2,722
2022		1,118
2023		—
Thereafter		—

The State's discretely presented component units, as employers, recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $229.6 thousand.

As of the fiscal year ended June 30, 2018, remaining deferred outflows of resources and deferred inflows of resources for the State's discretely presented component units, as employers, related to the GWPORS are from the following sources:

	(in thousands) Deferred Outflows of Resources		Deferred Inflows of Resources	
Difference between expected and actual experience	$	270	$	—
Net difference between projected and actual earnings on pension plan investments		—		28
Changes in assumptions		244		—
Changes in proportion and differences between employer contributions and proportionate share of contributions		—		86
Contributions paid to GWPORS subsequent to the measurement date – FY 2018 Contributions		234		—
Totals	$	748	$	114

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$	81
2020		195
2021		149
2022		61
2023		—
Thereafter		—

(2) State as an Employer and/or a Nonemployer Contributing Entity to Cost-Sharing Multiple-Employer Plans

Public Employees' Retirement System - Defined Benefit Retirement Plan – The PERS-DBRP, administered by the MPERA, is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, Chapters 2 & 3, MCA. This plan covers employees of the State and local governments, and certain employees of the Montana University System and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the Public Employees' Retirement System-Defined Contribution Retirement Plan (PERS-DCRP) by filing an irrevocable election. Members may not be participants of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's Montana University System-Retirement Program (MUS-RP).

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation.

Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 – HAC during any consecutive 36 months;
Hired on or after July 1, 2011 – HAC during any consecutive 60 months;
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit
Service retirement:
Hired prior to July 1, 2011 –
Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

Hired on or after July 1, 2011 –
Age 65, 5 years of membership service;
Age 70, regardless of membership service.

Early retirement, actuarially reduced:
Hired prior to July 1, 2011 –
Age 50, 5 years of membership service; or
Any age, 25 years of membership service.
Hired on or after July 1, 2011 – Age 55, 5 years of membership service.

Second retirement (all require retuning to PERS-covered employment or PERS service):
Retire before January 1, 2016 and accumulate less than 2 years' additional service credit or retire on or after January 1, 2016 and accumulate less than 5 years' additional service credit:

- A refund of member's contributions from second employment plus regular interest (.77%);
- No service credit for second employment;
- Start the same benefit amount the month following termination; and
- GABA starts again in the January immediately following second retirement

Retire before January 1, 2016 and accumulate at least 2 years of additional service credit:

- A recalculated retirement benefit based on laws in effect at second retirement; and
- GABA starts the January after receiving recalculated benefit for 12 months

Retire on or after January 1, 2016 and accumulate 5 or more years of additional service credit:

- The same retirement benefit as prior to their return to service;
- A second retirement benefit for second period of service based on laws in effect at second retirement;
- GABA starts on both benefits in the January after receiving the original and new benefit for 12 months

Vesting
5 years of membership service

Monthly benefit formula
Members hired prior to July 1, 2011 –
Less than 25 years of membership service: 1.785% of HAC per year of service credit;
25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011 –
Less than 10 years of membership service: 1.5% of HAC per year of service credit;
10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA) – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit:

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013
  a. 1.5% for each year PERS is funded at or above 90%;
  b. 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and,
  c. 0% whenever the amortization period for PERS is 40 years or more.

Contributions to the Plan
Rates are specified by state law for periodic employee, employer, and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system: Contributions are deducted from each member's salary and remitted by participating Employers. Plan members are required to contribute 7.90% of member's compensation. The 7.90% member contribution rate is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional Employer and additional member contribution rates.

Employer contributions to the system
State and University System employers are required to contribute 8.57% of member compensation.
Local government entities are required to contribution 8.47% of member compensation.
School district employers contributed 8.20% of member compensation.

Per the 2013 Legislative Session's House Bill 454, section 4, effective July 1, 2013, PERS employer contributions temporarily increased 1%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The Employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates. As of January 1, 2018, the additional contributions will not be terminated.

Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employer's reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

Non-Employer Entity Contributions

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities.
The State contributes 0.37% of member compensation on behalf of school district entities.
The State contributes a portion of Coal Severance Tax income and interest earnings from the Coal Trust Permanent Trust fund. Funding provided for the year ended June 30, 2018, totaled $31.4 million.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of Payroll 0.26%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0 to 4.8%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of all other adjustments to the member's benefit:
    - 3.00% for members hired prior to July 1, 2007
    - 1.50% for members hired between July 1, 2007 and June 30, 2013
    - Members hired on or after July 1, 2013:
        - 1.50% for each year PERS is funded at or above 90%
        - 1.50% is reduced by 0.1% for each 2% PERS is funded below 90%; and
        - 0% whenever the amortization period for PERS is 40 years or more
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the General Fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the PERS-DBRP's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the PERS-DBRP. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the PERS-DBRP's target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability (NPL) to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as an Employer in PERS-DBRP – Net Pension Liability	$ 1,504,767	$ 1,033,200	$ 637,355
State as a Nonemployer Contributing Entity to PERS-DBRP – Net Pension Liability	28,577	19,622	12,104

Net Pension Liability

In accordance with GASB 68, employers and the nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the PERS-DBRP. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions. The proportionate shares were determined based on contributions made to the plan by employers and the nonemployer

contributing entity special funding. The Coal Severance Tax collection and interest amounts were not considered in determining proportionate shares as this is not a special funding situation component.

In accordance with GASB 68, the PERS-DBRP has a special funding situation where the State is legally responsible for making contributions directly to the PERS-DBRP on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district's collective net pension liability that is associated with the non-State employer.

The State also has a funding situation that is not considered a special funding situation whereby the General Fund provides contributions received from the Coal Severance Tax collections and interest accrued on the Coal Tax Permanent Trust Fund. All employers are required to report the portion of Coal Severance Tax and interest attributable to the employer as a grant revenue.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	$ 906,880	$ 1,033,200	53.049189%
State's Proportionate Share as a Nonemployer Contributing Entity	16,287	19,622	1.007464%
State of Montana Totals	$ 923,167	$ 1,052,822	54.056653%

At June 30, 2018, the State reported a liability of $1.1 billion for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The proportion of the net pension liability is based on the employer's and nonemployer's special funding contributions received by the PERS-DBRP during the measurement period of July 1, 2016, through June 30, 2017, relative to the total employer and nonemployer special funding contributions received from all PERS-DBRP participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.
6. Decreased administrative expense load from 0.27% to 0.26%.

The following changes in method was identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms: The following benefit changes were identified:

1. Interest credited to member accounts increased from 0.25% to 0.77%.
2. Lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Grant Expenses

At June 30, 2018, the State as an employer recognized a pension expense of $127.8 million for its proportionate share of the PERS-DBRP's pension expense. The State as a nonemployer contributing entity recognized grant expense of $1.0 million for special funding support provided by the General Fund for its proportionate share of the PERS-DBRP's pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2018, were $128.8 million.

Support Revenue

As of the fiscal year ended June 30, 2018, the State as an employer recognized grant revenue of $14.8 million for its proportionate share of total nonemployer entity contributions from the Coal Severance Tax and interest nonspecial funding situation.

Deferred Outflows and Inflows

At June 30, 2018, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $55.6 million.

As of the fiscal year ended June 30, 2018, the State as an employer has the following proportionate shares of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	$ 25,444	$ 1,495
Net difference between projected and actual earnings on pension plan investments	—	6,939
Change of assumptions	141,228	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,360	12,622
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2018 Contributions	54,884	—
Totals	$ 230,916	$ 21,056

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(in thousands)

Year ended June 30:	Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$ 36,598
2020	80,792
2021	62,838
2022	(21,990)
2023	—
Thereafter	—

At June 30, 2018, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $28.8 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer contributing entity reported its proportionate share of the PERS-DBRP's deferred outflows of resources and deferred inflows of resources from the following sources:

(in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual versus expected experience	$ 483	$ 28
Net difference between projected and actual earnings on pension plan investments	—	132
Change of assumptions	2,682	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	546	—
Contributions paid to PERS-DBRP subsequent to the measurement date – FY 2018 Contributions	34,706	—
Totals	$ 38,417	$ 160

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction to its share of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

Year ended June 30:	*(in thousands)* Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2019	$ 695
2020	1,534
2021	1,193
2022	(417)
2023	—
Thereafter	—

Sheriffs' Retirement System – The SRS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation.

Summary of Benefits

Member's highest average compensation (HAC)
Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months.
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's HAC.

Eligibility for benefit
Service Retirement: 20 years of membership service, regardless of age.
Early Retirement: Age 50, 5 years of membership service, actuarially reduced.

Vesting
5 years of membership service

Monthly benefit formula
2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- ◦ 3.0% for members hired prior to July 1, 2007
- ◦ 1.5% for members hired on or after July 1, 2007

Contributions to the Plan

Rates are specified by state law for periodic employee and employer contributions and are a percentage of the member's compensation. The Legislature has the authority to establish and amend contribution rates to the plan.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by participating employers. Plan members are required to contribute 10.495% of member's compensation.

Employer contributions to the system – The employers are required to contribute 13.115% of member compensation. Employer contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Administrative Expense as a % of Payroll 0.21%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0.00% to 6.30%
- Postretirement Benefit Increases – After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
    - ◦ 3.00% for members hired prior to July 1, 2007
    - ◦ 1.50% for members hired on or after July 1, 2007
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. SRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the SRS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the SRS's target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
Employer's SRS Net Pension Liability	$ 6,526	$ 3,696	$ 1,380

Net Pension Liability

In accordance with GASB 68, employers are required to recognize and report certain amounts associated with their participation in the SRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability (NPL), pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
Employer Proportionate Share	$ 9,582	$ 3,696	4.856692%

At June 30, 2018, the State as an employer reported a liability of $3.7 million for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The employer's proportion of the net pension liability was based on the employer's contributions received by the SRS during the measurement period, July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of SRS participating employers.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.
6. Increased administrative expense load from 0.17% to 0.21%.

The following changes in method were identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

The following changes in contributions were identified:

1. Employee contributions increased from 9.245% to 10.495% of a members' compensation.
2. Employer additional contributions increased from 0.58% to 3.58% for a total rate of 13.115%
3. Employee contributions will return to 9.245% and employer contributions will return to 9.535% when reducing the employee rate and terminating additional employer contributions will not cause the amortization period to exceed 25 years.

Changes in benefit terms: The following benefit changes were identified:

1. Interest credited to member accounts increased from 0.25% to 0.77%.
2. Lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that are expected to have a significant effect on the Employer's proportionate share of the collective net pension liability.

Pension Expense

At June 30, 2018, the employer recognized a pension expense of $50.0 thousand for its proportionate share of the SRS pension expense.

Deferred Outflows and Inflows

At June 30, 2018, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $368.0 thousand.

As of the fiscal year ended June 30, 2018, the State, as an employer, reported its proportionate share of the SRS's deferred outflows of resources and deferred inflows of resources from the following sources:

(in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ 24	$ 11
Net difference between projected and actual earnings on pension plan investments	—	45
Changes of Assumptions	2,884	4,718
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	636
Contributions paid to SRS subsequent to the measurement date – FY 2018 contributions	496	—
Totals	$ 3,404	$ 5,410

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	(in thousands)	
Year ended June 30:	**Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense**	
2019	$	(549)
2020		(326)
2021		(413)
2022		(578)
2023		—
Thereafter		—

Municipal Police Officers' Retirement System – The MPORS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan that was established in 1974 and is governed by Title 19, chapters 2 & 9, MCA. This plan covers all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and final average compensation.

Deferred Retirement Option Plan (DROP)
Beginning July 2002, eligible members of the MPORS can participate in the DROP by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. A member must have completed at least twenty years of membership service to be eligible. They may elect to participate in the DROP for a minimum of one month and a maximum of 60 months and may only participate in the DROP once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the member's DROP account until the end of the DROP period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated. As of June 30, 2018, the balance held by MPERA for DROP participants was approximately $14.5 million.

The State is not an employer participant in the MPORS plan. However, because the PERB is a fiduciary component unit of the State, this CAFR presents certain information to help ensure compliance with GASB 67. In addition, the State provides nonemployer entity contributions classified as special funding in accordance with GASB 68. Disclosures made in this financial report for MPORS are meant to reflect the aforementioned relationships.

Summary of Benefits

Member's final average compensation (FAC)
Hired prior to July 1, 1977 – average monthly compensation of final year of service;
Hired on or after July 1, 1977 – final average compensation (FAC) for last consecutive 36 months.
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's FAC.

Eligibility for benefit
Service Retirement: Age 50, with 5 years of membership service, or 20 years of membership service, regardless of age.
Second Retirement: Age 50, reemployed in a MPORS position

Vesting
Death and disability rights are vested immediately.
5 years of membership service.

Monthly benefit formula
2.5% of FAC per year of service credit.

Second retirement benefit formula for members re-employed in a MPORS position after July 1, 2017:
1) If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
   a. Is not awarded service credit for the period of reemployment;
   b. Is refunded the accumulated contributions associated with the period of reemployment;
   c. Starting the·first month following termination of service, receives the same retirement benefit previously paid to the member; and
   d. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a Guaranteed Annual Benefit Adjustment (GABA) in January immediately following second retirement.
2) If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
   a. Is awarded service credit for the period of reemployment;
   b. Starting the first month following termination of service, receives:
      i. The same retirement benefit previously paid to the member, and
      ii. A second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; and
   c. Does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
      i. On the initial retirement benefit in January immediately following second retirement, and
      ii. On the second retirement benefit starting in January after receiving that benefit for at least 12 months.
3) A member who returns to covered service is not eligible for a disability benefit.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum benefit adjustment (non-GABA) If hired before July 1, 1997, and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% of the compensation of a newly confirmed officer of the employer where the member was last employed.

ions to the Plan
pecified by state law for periodic employee, employer, and nonemployer entity contributions. The Legislature hority to establish and amend contribution rates to the plan.

Member contributions – Contribution rates are dependent upon date of hire as a police officer. Contributions are deducted from each member's salary and remitted by the participating Employer. For fiscal year 2018:
- If hired prior to July 1, 1975, member contributions as a percentage of salary are 5.80%
- If hired after June 30, 1975, and prior to July 1, 1979, member contributions as a percentage of salary are 7.00%;
- If hired after June 30, 1979, and prior to July 1, 1997, member contributions as a percentage of salary are 8.50%; and,
- If hired on or after July 1, 1997, and for members electing GABA, member contributions as a percentage of salary are 9.00%.

Employer Contributions – Employers are required to contribute 14.41% of a member's compensation.

Nonemployer Entity Contributions – The State contributes 29.37% of a member's compensation from the General Fund. These amounts are considered a special funding situation in accordance with GASB 68.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Admin expense as a % of Payroll 0.24%
- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0.00% to 6.60%
- Postretirement Benefit Increases
    - GABA
      Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit
    - Minimum benefit adjustment (non-GABA)
      If hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% the compensation of a newly confirmed officer in the city that the member was last employed
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 29.37% of salaries paid by employers. Based on those assumptions, the MPORS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to

all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the MPORS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the MPORS's target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68, regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

(in thousands)

	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as a Nonemployer Entity Net Pension Liability	$ 173,784	$ 119,354	$ 75,713

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the MPORS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the MPORS has a special funding situation in which the State is legally responsible for making contributions directly to the MPORS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government's collective net pension liability that is associated with the non-State employer.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State as a Nonemployer Contributing Entity – Proportionate Share	$ 119,708	$ 119,354	67.085433%

At June 30, 2018, the State as a nonemployer contributing entity reported a liability of $119.4 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The nonemployer's proportion of the net pension liability was based on the nonemployer's special funding contributions received by the MPORS during the measurement period of July 1, 2016, through June 30, 2017, relative to total contributions received from all of the MPORS's participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.
6. Increased administrative expense load from 0.20% to 0.24%.

The following changes in method were identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms: The following changes to benefit terms were identified:

1. Working Retiree Limitation applies to retirement system members who return on or after July 1, 2017, to covered employment in the system from which they retired.
2. Second Retirement Benefit applies to retirement system members who return on or after July 1, 2017, to active service covered by the system from which they retired.
3. Interest credited to member accounts increased from 0.25% to 0.77%.
4. Lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective net pension liability.

Grant Expense Related to Special Funding

The State recognized grant expense of $14.5 million for special funding support provided by the General Fund for its proportionate share of the MPORS's pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2018, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $13.2 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer reported its proportionate share of the deferred outflows of resources and deferred inflows of resources related to MPORS from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Difference between expected and actual experience	$ —	$ 4,072
Net difference between projected and actual earnings on pension plan investments	104	—
Change of assumptions	8,056	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	391	—
Contributions paid to MPORS subsequent to the measurement date – FY 2018 Contributions	15,283	—
Totals	$ 23,834	$ 4,072

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

	(in thousands)
Year ended June 30:	**Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense**
2019	$ (170)
2020	3,404
2021	2,614
2022	(1,760)
2023	—
Thereafter	—

Firefighters' Unified Retirement System – The FURS, administered by the MPERA, is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This system provides retirement benefits to firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and compensation.

Summary of Benefits

Member's compensation

Hired prior to July 1, 1981, and not electing GABA – highest monthly compensation (HMC);

Hired after June 30, 1981, and those electing GABA – highest average compensation (HAC) during any consecutive 36 months.

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

Part-time firefighter – 15% of regular compensation of a newly confirmed full-time firefighter.

Eligibility for benefit
Service retirement: 20 years of membership service, regardless of age.
Early Retirement: Age 50, 5 years of membership service.

Vesting
Death and disability rights are vested immediately
5 years of membership service.

Monthly benefit formula
Members hired prior to July 1, 1981, and not electing GABA are entitled to the greater of:
2.5% of HMC per year of service; **or**

- if less than 20 years of service – 2% of HMC for each year of service;
- if more than 20 years of service – 50% of the member's HMC plus 2% of the member's HMC for each year of service over 20 years.

Members hired on or after July 1, 1981, and those electing GABA: 2.5% of HAC per year of membership service.

Guaranteed Annual Benefit Adjustment (GABA)
Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.

Minimum Benefit Adjustment (non-GABA)
If hired before July 1, 1997 and the member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 50% of the compensation of a newly confirmed active firefighter of the employer that last employed the member.

Contributions to the Plan
Rates are specified by state law for periodic employee, employer and nonemployer entity contributions. The Legislature has the authority to establish and amend contribution rates to the plan. Effective July 1, 2013, employer and state contributions are required to be paid on working retiree compensation. Member contributions are not required for working retirees.

Member contributions to the system – Contributions are deducted from each member's salary and remitted by the participating Employer. For members:
Hired prior to July 1, 1997 and not electing GABA, member contributions as a percentage of salary are 9.50%;
Hired on or after July 1, 1997 and electing GABA, member contributions as a percentage of salary are 10.70%.

Employer contributions to the system – Employers are required to contribute 14.36% of member's compensation.

Nonemployer entity contributions to the system – The State contributes 32.61% of a member's compensation from the General Fund.

Actuarial Assumptions
The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. There were several significant assumptions and other inputs used to measure the total pension liability. Among those assumptions were the following:

- Investment Return 7.65%
- Admin Expense as a % of Payroll 0.23%

- General Wage Growth 3.50%
- Inflation at 2.75%
- Merit Increases 0% to 6.30%
- Postretirement Benefit Increases
  - GABA
    Hired on or after July 1, 1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustment to the member's benefit.
  - Minimum Benefit Adjustment (non-GABA)
    Hired before July 1, 1997 and member did not elect GABA – the monthly retirement, disability or survivor's benefit may not be less than 50% the compensation of a newly confirmed firefighter employed by the city that last employed the member.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and nonemployer contributing entities will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 32.61% of salaries paid by employers. Based on those assumptions, the FURS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2124. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the FURS. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the FURS's target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.65%, as well as

what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

(in thousands)	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as an Employer in FURS – Net Pension Liability	$ 4,196	$ 2,525	$ 1,175
State as a Nonemployer Contributing Entity to FURS – Net Pension Liability	127,496	76,724	35,703

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the FURS. GASB 68 became effective June 30, 2015, and includes requirements to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the FURS has a special funding situation in which the State is legally responsible for making contributions directly to the FURS on behalf of the employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or fire district's collective net pension liability that is associated with the non-State employer.

(dollars presented in thousands)	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State's Proportionate Share as an Employer Entity	$ 2,583	$ 2,525	2.233929%
State's Proportionate Share as a Nonemployer Contributing Entity	77,448	76,724	67.876338%
State of Montana Totals	$ 80,031	$ 79,249	70.110267%

At June 30, 2018, the State reported a liability of $79.2 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity in relation to the FURS. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The proportion of the net pension liability was based on the all employer and nonemployer contributions received by the FURS during the measurement period, July 1, 2016, through June 30, 2017, relative to the total contributions received from all FURS participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: The following changes in assumptions were identified:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The wage inflation rate was reduced from 4.00% to 3.50%
4. The non-disabled mortality and withdrawal assumptions were updated.
5. The salary merit scale was updated.
6. Increased administrative expense load from 0.19% to 0.23%.

The following changes in method were identified:

1. Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the plan. This amount will vary from year to year based on the prior year's actual expense.
2. For consistency in changes of the base wage growth, the payroll growth assumption as a level percent of pay was reduced from 4.00% to 3.50%.

Changes in benefit terms: The following changes to benefit terms were identified:

1. Working Retiree Limitation applies to retirement system members who return on or

after July 1, 2017, to covered employment in the system from which they retired.

2. Second Retirement Benefit applies to retirement system members who return on or after July 1, 2017, to active service covered by the system from which they retired.
3. Interest credited to member accounts increased from 0.25% to 0.77%.
4. Lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the employer's reporting date there were no changes in proportion that would have an effect on the employer's proportionate share of the collective net pension liability.

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2018, the State as an employer recognized pension expense of $458.1 thousand for its proportionate share of the FURS pension expense. The State also recognized grant expense of $11.5 million for special funding support provided by the General Fund for its proportionate share of the FURS's pension expense that is associated with other employer participants in the plan. Total pension related expenses at June 30, 2018, was $12.0 million.

Deferred Outflows and Inflows

At June 30, 2018, the State, as an employer, recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $472.0 thousand.

As of the fiscal year ended June 30, 2018, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the FURS from the following sources:

	(in thousands)	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Actual versus expected experience	$ 17	$ 19
Net difference between projected and actual earnings on pension plan investments	2	—
Change of assumptions	315	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	199	—
Contributions paid to FURS subsequent to the measurement date – FY 2018 Contributions	518	—
Totals	$ 1,051	$ 19

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the measurement date of June 30, 2017, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense	
2019	$	26
2020		134
2021		87
2022		2
2023		66
Thereafter		—

At June 30, 2018, the State recognized a beginning deferred outflow of resources as a nonemployer contributing entity for fiscal year 2017 contributions of $14.0 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to FURS from the following sources:

	(in thousands) Deferred Outflows of Resources		Deferred Inflows of Resources	
Difference between expected and actual experience	$	505	$	580
Net difference between projected and actual earnings on pension plan investments		63		—
Change in assumptions		9,568		—
Changes in proportion and differences between employer contributions and proportionate share of contributions		5		—
Contributions paid to FURS subsequent to the measurement date – FY 2018 Contributions		15,272		—
Totals	$	25,413	$	580

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred inflows of resources related to pensions will be recognized in grant expense as follows:

Year ended June 30:	(in thousands) Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2019	$	775
2020		4,065
2021		2,647
2022		55
2023		2,014
Thereafter		—

Volunteer Firefighters' Compensation Act – The VFCA, administered by the MPERA, is a statewide retirement and disability plan established in 1965, and governed by Title 19, chapter 17, MCA. All members are unpaid volunteers and the State is the only contributor to the plan. Benefits are established by state law and can only be amended by the Legislature. The VFCA provides pension, disability, and survivorship benefits for all eligible volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas, towns or villages, and includes volunteer

fire departments, fire districts, and fire service areas under the laws of the State. Benefits are based on eligibility and years of service. Member rights are vested after ten years of credited service. The VFCA also provides limited benefits for death or injuries incurred in the line of duty. A member who chooses to retire and draw a pension benefit may return to service with a volunteer fire department without loss of benefits. However, a returning retired member may not be considered an active member accruing credit for service.

Summary of Benefits

Eligibility for benefit
Age 55, 20 years of credited service;
Age 60, 10 years of credited service.

Effective July 1, 2011, members who retire on or after July 1, 2011, and have greater than 30 years of credited service will receive $7.50 per month for each additional year of credited service over 30 years if the pension trust fund is actuarially sound, amortizing any unfunded liabilities in 20 years or less. This determination will be made annually and a member's benefit will be capped at $250 a month (30 years of credited service) if the amortization period grows to greater than 20 years.

Vesting
10 years of credited service.

Monthly benefit formula (effective January 1, 2016)
$8.75 per year of credited service up to 20 years;
$7.50 per year of credited service after 20 years

Contributions to the Plan

The State, as a nonemployer contributing entity, is the only contributor to the VFCA. Contributions are 5% of fire insurance premium taxes collected on certain fire risks. This requires the plan to be treated as a special funding situation in accordance with GASB 68. The State Auditor makes annual payments from the General Fund to the VFCA fund. Rates are specified by state law for contributions to the VFCA plan. The State legislature has the authority to establish and amend contribution rates to the plan.

Actuarial Assumptions

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the last actuarial experience study, dated May 2017 for the six-year period ended June 30, 2016. Among those assumptions were the following:

- Investment Return 7.65%
- Inflation at 2.75%
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 using Scale BB, set back one year for males.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables.

For VFCA, administrative expenses are assumed to equal $89.3 thousand. This dollar amount is added to normal cost for valuation purposes.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that contributions from the nonemployer contributing entity will be made based on the PERB's funding policy, which establishes the contractually required rates under MCA. The State contributes 5% of fire insurance premium taxes paid on certain fire risks. Based on those assumptions, the VFCA's fiduciary net position was projected

to be adequate to make all the projected future benefit payments of current plan members through the year 2109. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the VFCA. The most recent analysis, performed for the six-year period ended June 30, 2016, is outlined in a report dated May 2017, and can be located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public pension systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the VFCA's target asset allocation as of June 30, 2017, is summarized in the table that follows:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
State as a Nonemployer Entity Net Pension Liability	$ 14,675	$ 10,087	$ 6,202

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the VFCA. GASB 68 became effective June 30, 2015, and includes requirements to record and report proportionate shares of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions.

In accordance with GASB 68, the VFCA has a special funding situation in which the State is legally responsible for making contributions directly to the VFCA on behalf of volunteer employers. Due to the existence of this special funding situation, the State is required to report a proportionate share of a volunteer fire company's collective net pension liability that is associated with the non-State volunteer employer.

(dollars presented in thousands)	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State as a Nonemployer Proportionate Share	$ 10,599	$ 10,087	100%

At June 30, 2018, the State reported a liability of $10.1 million for its proportionate share of the net pension liability. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The nonemployer's proportion of the net pension liability was based on the nonemployer's contributions received by the VFCA during the measurement period, July 1, 2016, through June 30, 2017, relative to total contributions received.

Changes in actuarial assumptions and methods: The following changes have been made to the actuarial assumptions:

1. The discount rate was lowered from 7.75% to 7.65%
2. The inflation rate was reduced from 3.00% to 2.75%
3. The non-disabled mortality and withdrawal assumptions were updated.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the nonemployer's reporting date that are expected to have a significant effect on the nonemployer's proportionate share of the collective net pension liability.

Grant Expense Related to Special Funding

The State as a nonemployer contributing entity recognized grant expense of $1.3 million for special funding support provided by a portion of fire tax premiums paid to the State and transferred to MPERA for its proportionate share of the VFCA pension expense that is associated with other employer participants in the plan.

Deferred Outflows and Inflows

At June 30, 2018, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $2.1 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to VFCA from the following sources:

(in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ —	$ 908
Change of assumptions	1,521	—
Net difference between projected and actual earnings on pension plan investments	103	—
Contributions paid to VFCA subsequent to the measurement date – FY 2018 Contributions	2,207	—
Totals	$ 3,831	$ 908

Amounts reported as deferred outflows of resources related to pensions resulting from the State's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in grant expense as follows:

Year ended June 30:	*(in thousands)* Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense	
2019	$	(39)
2020		858
2021		147
2022		(250)
2023		—
Thereafter		—

Teachers' Retirement System – The TRS is administered by the Teachers' Retirement Board (TRB), which is the governing body of a mandatory multiple-employer cost-sharing defined benefit pension plan that provides retirement services to persons in Montana employed as teachers or professional staff of any public elementary or secondary school, community college, or unit of the university system. The TRS as an employer does not participate in the plan and acts only as the administrator of the plan.

The TRB is the governing body of the TRS and the TRS's staff administer the TRS in conformity with the laws set forth in Title 19, chapter 20, MCA, and administrative rules set forth in Title 2, chapter 44 of the Administrative Rules of Montana.

Summary of Benefits

Through June 30, 2013, all members enrolled in TRS participated in a single-tiered plan ("Tier One"). Employees with a minimum of 25 years of service or who have reached age 60 with 5 years of service are eligible to receive an annual retirement benefit equal to creditable service years divided by 60 times the average final compensation. Final compensation is the average of the highest three consecutive years of earned compensation. Benefits fully vest after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Benefits are established by state law and can only be amended by the Legislature.

Beginning July 1, 2013, new members in TRS participate in a second benefit tier ("Tier Two"), which differs from Tier One as follows:

- Tier Two uses a 5-year average final compensation (as opposed to 3-year AFC in Tier One)
- Tier Two provides for unreduced service retirement benefits at age 60 with 5 years of creditable service or at age 55 with at least 30 years of creditable service (rather than at age 60 with 5 years of service or at any age with creditable service in 25 years in Tier One)
- Tier Two provides for early retirement benefits with 5 years of creditable service at age 55 (rather than age 50 in Tier One)
- Tier Two has a one percent higher normal employee contribution rate (though a temporary 1% supplemental employee contribution rate is also now currently in place for Tier One members), and
- Tier Two provides for an enhanced benefit calculation—1.85% of the AFC multiplied by the years of creditable service—for members retiring with at least 30 years of creditable service and at least 60 years of age (rather than 1.6667 x AFC x years of creditable service)

A guaranteed annual benefit adjustment (GABA) is payable on January 1 of each calendar year for each retiree who has received at least 36 monthly retirement benefit payments prior to that date. The GABA is applicable to both Tier One and Tier Two members. The GABA for Tier 1 members is 1.5% of the benefit payable as of January 1. For Tier Two members the GABA each year may vary from 0.5% to 1.5% based on the retirement system's funding status and the period required to amortize any unfunded accrued actuarial liability as determined in the prior actuarial valuation.

Contributions to the System
All active employees in the TRS, regardless of employer type, are required to provide a contribution equal to 8.15% of their compensation.

All State and University employers are required to contribute 11.25% of compensation provided to an active, nonreemployed member. All school district and other employers are required to contribute 8.87% of an active, nonreemployed, member's compensation to the System.

Section 19-20-605, MCA, requires each employer to contribute 9.85% of total compensation paid to all reemployed TRS retirees employed in a TRS reportable position. Pursuant to Section 19-20-609, MCA, this amount shall increase by 1.00% for fiscal year 2014 and increase by 0.10% each fiscal year through 2024 until the total employer contribution is equal to 11.85% of reemployed retiree compensation.

The TRS receives a portion of the total required statutory contributions directly from the State for all employers. The employers are considered to be in a special funding situation and the State is treated as a nonemployer contributing entity in the TRS. The System receives 0.11% of reportable compensation from the General Fund for all TRS members. The TRS also receives 2.38% of reportable compensation from the General Fund for school districts and other employers. Finally, the State is also required to contribute $25 million in perpetuity payable July 1 of each year. The Legislature has the authority to establish and amend contribution rates to the plan.

Actuarial Assumptions
The total pension liability as of June 30, 2017, is based on the results of an actuarial valuation date of July 1, 2017. There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the July 1, 2017, valuation were based on the results of the last actuarial experience study, dated May 1, 2014. Among those assumptions were the following:

- Total wage increases (includes 4% general wage increase assumption): 4.00% to 8.51% for non-university members; 5.00% for university members
- Investment Return: 7.75%
- Price Inflation: 3.25%
- Postretirement Benefit Increases (starting three years after retirement)
    - Tier One members: If the retiree has received benefits for at least three years, the retirement allowance will be increased by 1.5% on January 1.
    - Tier Two members: The retirement allowance will be increased by an amount equal to or greater than .5% but no more than 1.5% if the most recent actuarial valuation shows the TRS to be at least 90% funded and the provisions of the increase is not projected to cause the funded ratio to be less than 85%.
- Mortality among contributing members, service retired members, and beneficiaries
    - For Males: 1992 base rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 base rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years, with mortality improvements projected by Scale BB to 2018.
    - For Females: 1992 base rates from the RP 2000 Healthy Annuitant Mortality Table for ages 50 and above and 1992 base rates from the RP 2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back two years, with mortality improvements projected by Scale BB to 2018.
- Mortality among disabled members
    - For Males: RP 2000 Disabled Mortality Table for Males, set forward one year, with mortality improvements projected by Scale BB to 2018.
    - For Females: RP 2000 Disabled Mortality Table for Females, set forward five years, with mortality improvements projected by Scale BB to 2018.

Discount Rate
The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating TRS members, employers, and nonemployer contributing entities will be made based on the TRB's funding policy, which establishes the contractually required rates under MCA. In addition to these contributions, the State General Fund will contribute $25 million annually to the TRS payable July 1 of each year. Based on those assumptions, the TRS's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected

rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

The assumed long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the TRS. The most recent analysis, performed for the period covering fiscal years 2009 through 2013, is outlined in a report dated May 1, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates of arithmetic real rates of return for each major asset class included in the TRS's target asset allocation as of June 30, 2017, is summarized in the table below:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Broad US Equity	36.00%	4.80%
Broad International Equity	18.00%	6.05%
Private Equity	12.00%	8.50%
Intermediate Bonds	23.40%	1.50%
Core Real Estate	4.00%	4.50%
High Yield Bonds	2.60%	3.25%
Non-Core Real Estate	4.00%	7.50%

Sensitivity Analysis

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

	(in thousands)		
	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
State as an Employer in TRS – Net Pension Liability	$ 66,458	$ 48,227	$ 32,872
State as a Nonemployer Contributing Entity to TRS – Net Pension Liability	886,016	642,958	438,252

Net Pension Liability

In accordance with GASB 68, employers and nonemployer contributing entities are required to recognize and report certain amounts associated with their participation in the TRS. GASB 68 became effective June 30, 2015, and includes requirements for participants to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows of resources, and deferred outflows of resources associated with pensions. In accordance with GASB 68, the TRS has a special funding situation in which the State is legally responsible for making contributions directly to TRS that are used to provide pension benefits to the retired members of the TRS. Due to the existence of this special funding situation, the State is required to report a proportionate share of a local government or school district's collective net pension liability that is associated with the non-State employer.

(dollars presented in thousands)

	Net Pension Liability as of 6/30/16	Net Pension Liability as of 6/30/17	Percent of Collective NPL
State's as an Employer Entity	$ 57,016	$ 48,227	2.860298%
State's as a Nonemployer Entity	707,527	642,958	38.133267%
State of Montana Totals	$ 764,543	$ 691,185	40.993565%

At June 30, 2018, the State reported a liability of $691.2 million for its proportionate share of the net pension liability as an employer and nonemployer contributing entity. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The employer's proportion of the net pension liability was based on the State's contributions received by the TRS during the measurement period, July 1, 2016, through June 30, 2017, relative to the all contributions received from the TRS's participating employers and the nonemployer contributing entity.

Changes in actuarial assumptions and methods: Since the previous measurement date, there have been no changes in actuarial assumptions or methods.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Employer Pension Expense and Nonemployer Contributing Entity Special Funding Grant Expense

At June 30, 2018, the State as an employer recognized a pension expense of $12.1 million for its proportionate share of the collective TRS pension expense. The State as a nonemployer contributing entity also recognized grant expense of $31.5 million for special funding support provided by the State's General Fund for its proportionate share of the collective TRS pension expense that is associated with other employer participants in the TRS. Total pension related expenses for fiscal year 2018 was $43.6 million.

Deferred Outflows and Inflows

At June 30, 2018, the State as an employer recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $17.4 million.

As of the fiscal year ended June 30, 2018, the State as an employer reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to the TRS from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 177	$ 72
Net difference between projected and actual earnings on pension plan investments	—	191
Change of assumptions	—	202
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,411	1,355
Contributions paid to TRS subsequent to the measurement date – FY 2018 Contributions	17,298	—
Totals	$ 29,886	$ 1,820

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	(in thousands) Amount recognized in Pension Expense as an increase or (decrease) to Pension Expense
2019	$ 4,971
2020	4,603
2021	2,047
2022	(853)
2023	—
Thereafter	—

At June 30, 2018, the State as a nonemployer contributing entity recognized a beginning deferred outflow of resources for fiscal year 2017 contributions of $43.0 million.

As of the fiscal year ended June 30, 2018, the State as a nonemployer contributing entity reported its proportionate share of deferred outflows of resources and deferred inflows of resources from the following sources:

	(in thousands) Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 2,365	$ 961
Net difference between projected and actual earnings on pension plan investments	—	2,544
Changes of assumptions	—	2,688
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,375	32,164
Contributions paid to TRS subsequent to the measurement date – FY 2018 Contributions	43,718	—
Totals	$ 52,458	$ 38,357

Amounts reported as deferred outflows of resources related to pensions resulting from the nonemployer's contributions subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in grant expense as follows:

Year ended June 30:	(in thousands) Amount recognized in Grant Expense as an increase or (decrease) to Grant Expense
2019	$ (23,280)
2020	3,570
2021	1,441
2022	(11,348)
2023	—
Thereafter	—

D. Legal Actuarial Status of Plans

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

The statutory funding rate is tested in the valuation of each public retirement plan to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, within 30 years. As of June 30, 2018, the Game Warden & Peace Officers' Retirement System (GWPORS), the Highway Patrol Officers' Retirement System (HPORS), the Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), and the Teachers' Retirement System (TRS) were not in compliance and do not amortize within 30 years.

E. Public Employee Defined Contribution Retirement Plans

Public Employees' Retirement System-Defined Contribution Retirement Plan – The Public Employees' Retirement System - Defined Contribution Retirement Plan (PERS-DCRP) is a multiple Employer plan established July 1, 2002, and governed by Title 19, Chapters 2 & 3, MCA. This plan is available to eligible employees of the State, Montana University System, local governments, and school districts. All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to transfer to the PERS-DCRP, or remain in the PERS-DBRP, by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP.

Members may not be members of both the defined contribution and defined benefit retirement plans. The PERS-DBRC provides retirement, disability and death benefits to plan members and their beneficiaries.

Member and Employer contribution rates are established by state law and may be amended only by the Legislature. Employees contribute at a rate of 7.90% of their compensation. Contributions made to the plan by an employee remain 100% vested in their interest. Members who achieve 5 years of employment are vested in the plan. Should they terminate prior to this 5-year period, all employer contributions are forfeited to the plan. Amounts forfeited are held in a separate plan forfeiture account and can only be used to pay the administrative expenses, including startup costs, of the plan. Total pension expense for the State as a PERS-DCRP employer for the year ended June 30, 2018, is $6.9 million and contribution forfeitures were $746.1 thousand.

Local government entities contribute 8.47% of member compensation. School district employers contributed 8.20% of member compensation. The State contributes 0.10% of member compensation on behalf of local government entities and 0.37% of member compensation on behalf of school district entities. Each State agency and University employer contributed 8.57% of member compensation.

The total contribution rate of 8.57%, referenced in the preceding paragraph, is allocated as follows: 8.23% to the member's retirement account; 0.04% to the defined contribution education fund; and 0.30% to the defined contribution Other Post Employment Benefit (OPEB) disability plan.

The PERS-DCRP also administers an OPEB disability plan. Refer to PERB's annual financial report for additional information related to this portion of the plan.

457-Deferred Compensation Plan – The 457-Deferred Compensation Plan (457-Plan) is a voluntary supplemental retirement savings plan established in 1974. The Deferred Compensation Plan is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Code (IRC) Section 457. This plan is available to all employees of the State, Montana University System, and contracting political subdivisions. The State and 53 non-state entity employers participate in the 457-Plan.

Assets of the Deferred Compensation Plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Empower Retirement™ is the record keeper for the plan. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed, provided IRS-specified criteria are met.

F. Montana University System Retirement Program

Montana University System-Retirement Program (MUS-RP) – This system was established in January 1988 and is underwritten by the Teachers Insurance and Annuity Association (TIAA). Effective July 1, 1993, MUS-RP was made the mandatory retirement plan for new faculty and administrative staff with contracts under the authority of the Board of Regents, previously referred to as the Optional Retirement Program (ORP). The MUS-RP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the MCA. Combined contributions to the faculty and professional staff plan cannot exceed 13% of the participant's compensation per 19-21-203, MCA. Combined contributions to the classified staff plan are 16.47% per 19-3-316, MCA.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the MUS-RP, each employee enters into an individual contract with TIAA. Individuals are immediately vested with all contributions. The Montana University System records employee/employer contributions, and remits monies to TIAA. Total contributions made to the plan by the employer were $16.9 million and the total employee contributions were $19.5 million for the fiscal year ended June 30, 2018.

G. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments, as authorized by state law, for the defined benefit retirement plans in two investment pools, the Consolidated Asset Pension Pool (CAPP) and the Short-Term Investment Pool (STIP). CAPP is an internal investment pool and STIP is an external investment pool. Each retirement plan's

ownership in the pools is based on the funds contributed. Individual investments in the pools are not specifically identified to the respective retirement plan. Investments are reported at either fair value or cost, depending on the underlying investment type. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of direct real estate investments is based on appraised value. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. Further detail related to investments is provided in Note 3.

H. Long-term Contracts for Contributions

The Montana Legislature enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706, MCA) allowing state and university system employees who are eligible for a service retirement and whose positions have been eliminated to have their Employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. In fiscal year 2018, there were 254 employees participating in the program.

The Employer has up to ten years to complete payment for the service purchases and is charged the actuarially required rate of return as established by the Montana Public Employee Retirement Administration (MPERA) on the unpaid balance. Total contributions received (including interest) during fiscal year 2018 totaled $261.8 thousand. The outstanding balance at June 30, 2018, totaled $16.0 thousand.

I. Litigation

Tadman, et al. v. State. A retired member of the Sheriffs' Retirement System filed a class action against the State of Montana on October 6, 2015, alleging the inappropriate payment of state and federal income tax on certain line-of-duty disability benefits. The plaintiff is represented by Lawrence A. Anderson, an attorney located in Great Falls, Montana. The State was served with the Complaint on November 25, 2015, and is represented by Eric Biehl and Hanna Warhank from Church, Harris, Johnson & Williams PC, in Great Falls, Montana and MPERA legal counsel. The State responded and filed an amended answer to the complaint before filing a motion and brief to change venue and/or to dismiss the matter for lack of subject matter jurisdiction. Following a hearing on June 1, 2017, the State's motions were denied. Discovery requests and responses have been served by both parties. The plaintiff's motion for class certification was filed October 31, 2017. A third set of discovery requests resulted in plaintiff expanding the issues to include conversion of a disability benefit to a service retirement benefit at normal retirement age. A supplemental set of briefs were filed as of October 2018 and the parties await a ruling from Judge Pinski on plaintiff's motion for class certification.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General Information Non-trust Plans

The State of Montana (State) and the Montana University System (MUS) provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. The State and MUS offer OPEB plans that are not administered through trusts; as such, there are no plan assets accumulated to offset the total OPEB liability.

In accordance with Section 2-18-704, MCA, the State provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from the Public Employees' Retirement System (PERS) or various other State retirement systems, and elect to start medical coverage within 60 days of leaving employment. Retirement eligibility criteria differ by State retirement plan. Further detail on State Retirement Plans are provided in Note 6. MUS provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from their plan, or an annuity under the MUS-RP, and have been employed by MUS for at least five years, are age 50, or have worked 25 years with MUS. They must elect to start medical coverage within 60 days of leaving employment. Spouses, unmarried dependent children, and surviving spouses are also eligible for both plans.

Montana State Fund, a discretely presented component of the State and participant in the State OPEB plan, by statute, prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, there will be a variance between the note disclosures and the financial statements for OPEB related information.

B. Plan Descriptions

Both healthcare OPEB plans for the State and MUS are reported as single employer plans. In addition to the primary government, the participating employers under the State OPEB plan are: Facility Finance Authority, Montana Board of Housing, Public Employees' Retirement System, Montana State Fund, and Teachers' Retirement System. The participating employers under the MUS OPEB plan are: Office of Commissioner of Higher Education (OCHE), Montana State University - Billings (MSU-Billings), Montana State University - Bozeman (MSU-Bozeman), Great Falls College MSU, Montana State University - Northern (MSU-Northern), Montana Technological University, Helena College UM, University of Montana - Missoula (UM-Missoula), and University of Montana - Western (UM-Western). Participating employers under MUS, but excluded from the total OPEB liability due to not qualifying as component units, are: Dawson Community College (Dawson CC), Flathead Valley Community College (Flathead CC), and Miles Community College (Miles CC). Each participating employer is required to disclose additional information as required per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75).

The State and MUS pay for post employment healthcare benefits on a pay-as-you-go basis. Section 2-18-8, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. Section 20-25-13, MCA gives authority for establishing and amending the funding policy to the Board of Regents for the MUS group health insurance plan. The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds.

As of December 31, 2017, the State OPEB plan's administratively established retiree medical premiums vary between \$439.00 and \$1,633.00 per month, depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$41.10 and \$70.00 and vision hardware premiums vary between \$7.64 and \$22.26, depending on the coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

As of June 30, 2018, the MUS OPEB plan's administratively established retiree medical premiums vary between $327.00 and $2,403.00 per month. Retiree dental premiums vary between $52.00 and $156.00 per month while vision premiums vary from $9.71 to $28.31, depending on the types and number of dependents enrolled. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

C. Basis of Accounting

Total OPEB liability is reported on an accrual basis on the proprietary and fiduciary fund financial statements, the government-wide financial statements and the component unit financial statements. Total OPEB liability is not reported on the governmental fund financial statements, as it is considered a long-term liability. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Both OPEB plans state, "An employee enrolled in the State OPEB plan who (a) at least meets the early retirement criteria defined by Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with the Health Care and Benefits Division (HCBD), within 60 days of the date active employee coverage ends, to continue post-retirement coverage, may continue with the State OPEB plan on a self-pay basis, retroactive back to the date active employee coverage was lost," and adhere to these provisions. Therefore, each plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2018.

The number of State Plan participants as of March 31, 2018, follows:

	State Plan Participants						
Enrollment	State (1)	Facility Finance Authority (2)	Montana Board of Housing (2)	Public Employee Retirement Board (2)	Montana State Fund (2)	Teachers Retirement System (2)	Total
Active employees	12,210	1	15	46	293	20	12,585
Retired employees, spouses, and surviving spouses	2,846	2	3	1	14	7	2,873
Total	15,056	3	18	47	307	27	15,458

The number of MUS Plan participants as of March 31, 2018, follows:

	MUS Plan Participants									
Enrollment	MSU-GFC (2)	UM-HC (2)	MSU-Billings (2)	MSU-Bozeman (2)	MSU-Northern (2)	OCHE (1)	UM-Missoula (2)	UM-MT Tech (2)	UM-Western (2)	Total
Active employees	120	97	462	3,094	176	61	2,143	437	188	6,778
Retired employees, spouses, and surviving spouses	7	20	136	578	42	23	579	102	61	1,548
Total	127	117	598	3,672	218	84	2,722	539	249	8,326

(1) Primary Government
(2) Discrete Component Units of Primary Government

D. Schedule of Changes in Total OPEB liability

The following table presents the other items related to and changes in the Total OPEB liability:

Annual OPEB Cost & Changes in Total OPEB liability
(in thousands)

	State Plan			MUS Plan		
	Primary Government OPEB liability	Discrete Component Unit OPEB liability	Total State Plan	Primary Government OPEB liability	Discrete Component Unit OPEB liability	Total MUS Plan
Balances at 6/30/2017 (Restated)	$ 48,914	$ 955	$ 49,869	$ 421	$ 33,837	$ 34,258
Changes for the year:						
Service Cost	1,775	114	1,889	(12)	1,966	1,954
Interest	1,889	125	2,014	17	1,393	1,410
Difference between Expected and Actual Experience	(4,430)	(293)	(4,723)	(15)	(1,308)	(1,323)
Changes of assumptions or other inputs	(277)	(18)	(295)	(2)	(180)	(182)
Benefit Payments	1,599	106	1,705	(8)	(671)	(679)
Net Changes	556	34	590	(20)	1,200	1,180
Balances at 6/30/2018	$ 49,470	$ 989	$ 50,459	$ 401	$ 35,037	$ 35,438

E. Actuarial Methods and Assumptions

The total OPEB liability (TOL) measured under GASB 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. As a pay-as-you-go public entity, GASB 75 requires a 20-year current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The schedule of changes in the State's and MUS's TOL and related ratios, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of plan TOL is increasing or decreasing over time relative to the actuarial liabilities for benefits. The schedule of changes in the State's and MUS's TOL and related ratios are based on the substantive plan (*the plan as understood by the employer and the plan members*). This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The State's OPEB Plan TOL in December 31, 2017, rolled forward to March 31, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Other Postemployment Benefits
State Single Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	$ 13,572	$ 5,268
After Medicare eligibility	5,271	4,403
Actuarial valuation date	December 31, 2017	
Actuarial measurement date (1)	March 31, 2018	
Actuarial cost method	Entry age normal funding method	
Amortization method	Open basis	
Remaining amortization period	20 years	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Discount rate	3.89%	
Projected payroll increases	4.00%	
Participation:		
Future retirees	55.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

(1) Updated procedures were used to roll forward the total OPEB liability to the measurement date.

Mortality - Health: For TRS, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: For TRS, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial methods include adjustments to the amortization period and actuarial cost method to conform with GASB 75 requirements. Changes in actuarial assumptions include revised rates per the retirement system pension valuations as of July 1, 2017 and interest rate based upon the March 31, 2018, 20-year municipal bond index per GASB 75 requirements. Other changes include revised rates based on actual data and projected trend and updated projected healthcare trend rates to follow the Getzen model.

Changes in benefit terms since last measurement date: Medical plans moved from Cigna to Allegiance as of January 1, 2016, the State implemented reference-based pricing hospital contracts effective July 1, 2016, and pharmacy moved from URx to Navitus as of January 1, 2017. The State implemented an Employer Group Waiver Program for Medicare retirees effective January 1, 2017.

Additional information as of the latest actuarial valuation for MUS OPEB plan follows:

Other Postemployment Benefits
MUS Single Employer Plan

	Retiree/Surviving Spouse	Spouse
Contributions (in thousands):		
Before Medicare eligibility	$ 11,264	$ 4,728
After Medicare eligibility	4,806	3,620
Actuarial valuation date	December 31, 2017	
Actuarial measurement date (1)	March 31, 2018	
Actuarial cost method	Entry age normal funding method	
Amortization method	Open basis	
Remaining amortization period	20 year period	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Discount rate	3.89%	
Projected payroll increases	4.00%	
Participation:		
Future retirees	55.00%	
Future eligible spouses	60.00%	
Marital status at retirement	70.00%	

(1) Updated procedures were used to roll forward the total OPEB liability to the measurement date.

Mortality - Health: For TRS and MUS-RP, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: For TRS and MUS-RP, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial methods include adjustments to the amortization period and actuarial cost method to conform with GASB 75 requirements. Changes in actuarial assumptions include revised rates per the retirement system pension valuations as of July 1, 2017, and interest rate based upon the March 31, 2018, 20-year municipal bond index per GASB 75 requirements, lapse rates were removed to reflect a return to standard retiree contribution levels, added employees covered by the MUS-RP, changes in revised rates based on actual data and projected trend and updated projected healthcare trend rates to follow the Getzen model.

Changes in benefit terms since last measurement date: Increased deductible, increased out-of-pocket limits for Medical and RX, increased visit copays, pharmacy moved from URx to Navitus as of July 1, 2017, employer group waiver program for Medicare retirees became effective July 1, 2017, adopted combined annual visit max of 30 for multiple therapy services and massage therapy moved into rehabilitation benefit.

Sensitivity of the TOL to changes in the discount rate

The following presents the TOL of the State and MUS OPEB plans, as well as what they would be if calculated using a discount rate that is 1-percentage-point lower (2.89 percent) or 1-percentage-point higher (4.89 percent) than the current discount rate:

	State OPEB plan (in thousands)		
	1.0% Decrease (2.89%)	Current Discount Rate (3.89%)	1.0% Increase (4.89%)
Primary Government	$ 60,653	$ 49,470	$ 40,919
Discrete Component Units	1,269	989	778
Total OPEB liability	$ 61,922	$ 50,459	$ 41,697

	MUS OPEB plan (in thousands)		
	1.0% Decrease (2.89%)	Current Discount Rate (3.89%)	1.0% Increase (4.89%)
Primary Government	$ 487	$ 401	$ 335
Discrete Component Units	42,264	35,037	29,416
Total OPEB liability	$ 42,751	$ 35,438	$ 29,751

Sensitivity of the TOL to changes in the healthcare cost trend rates

The following presents the TOL of the State and MUS OPEB plans, as well as what they would be if calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current healthcare cost trend rates:

	State Plan (in thousands)		
	1.0% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1.0% Increase (8.5%)
Primary Government	$ 40,684	$ 49,470	$ 61,332
Discrete Component Unit	774	989	1,285
Total OPEB liability	$ 41,458	$ 50,459	$ 62,617

	MUS Plan (in thousands)		
	1.0% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1.0% Increase (8.5%)
Primary Government	$ 330	$ 401	$ 495
Discrete Component Unit	28,790	35,037	42,278
Total OPEB liability	$ 29,120	$ 35,438	$ 42,773

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
For the year ended June 30, 2018, the State OPEB plan's OPEB expense is $3.9 million and MUS OPEB plan's OPEB expense is $3.3 million.

At June 30, 2018, the State OPEB plan deferred outflows and inflows of resources are from the following sources:

	State Plan (in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Primary Government		
Difference between expected and actual experience	$ —	$ 4,430
Changes of assumptions or other inputs	—	277
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	968	—
Total	$ 968	$ 4,707
Discrete Component Units		
Difference between expected and actual experience	$ 114	$ 407
Changes of assumptions or other inputs	7	25
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	24	—
Total	$ 145	$ 432

At June 30, 2018, MUS OPEB plan deferred outflows and inflows of resources are from the following sources:

	MUS Plan (in thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Primary Government		
Difference between expected and actual experience	$ —	$ 15
Changes of assumptions or other inputs	—	2
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	1	—
Total	$ 1	$ 17
Discrete Component Units		
Difference between expected and actual experience	$ —	$ 1,308
Changes of assumptions or other inputs	—	180
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	100	—
Total	$ 100	$ 1,488

Deferred outflows of resources and deferred inflows of resources related to TOL will be recognized as OPEB expense as follows:

	Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense		
	State Plan (in thousands)		
Year ended June 30	Primary Government	Discrete Component Units	State Plan Total
2019	$ (388)	$ (26)	$ (414)
2020	(388)	(26)	(414)
2021	(388)	(26)	(414)
2022	(388)	(26)	(414)
2023	(388)	(26)	(414)
Thereafter	(2,832)	(116)	(2,948)

	Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense		
	MUS Plan (in thousands)		
Year ended June 30	Primary Government	Discrete Component Units	MUS Plan Total
2019	$ (1)	$ (124)	$ (125)
2020	(1)	(124)	(125)
2021	(1)	(124)	(125)
2022	(1)	(124)	(125)
2023	(1)	(124)	(125)
Thereafter	(10)	(867)	(877)

F. General Information Trust Plan

General Information
Section 19-3-2141, MCA, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana Employees that participate in the Public Employee Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public Employee Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

Plan Description
The PERS-DCRP Disability is a multiple-employer cost sharing plan that covers employees of the State, local governments, and certain employees of the university system and school districts, who are not covered by a separate retirement system governed by Title 19, MCA. The PERS-DCRP Disability plan provides disability benefits to PERS-DCRP plan members who are vested in the plan and are currently ineligible for retirement.

A separate trust has been established for purposes of providing disability benefits to PERS-DCRP Disability plan members and it is accounted for as a fiduciary fund. The assets are held in a trust capacity for the beneficiaries. The Public Employee Retirement System issues publicly available annual reports which include financial statements and required supplemental information for the plan. Those reports may be obtained online (http://mpera.mt.gov) or by contacting the following:

Public Employees' Retirement Board
100 North Park, Suite 200
P.O. Box 200131
Helena, MT 59620-0131

G. Termination Benefits

During the year ended June 30, 2018, the State made the following termination benefit arrangements: continued coverage of group health insurance benefits for fifty-two employees provided for up to eighteen months, one-time lump-sum incentive payments for fifty employees, and paid administrative leave for four employees. In determining the termination benefit liability related to the continued coverage of group health insurance benefits, it was assumed that these benefits would be paid for the entire period of the arrangement.

During the year ended June 30, 2018, component units of the State made the following termination benefit arrangements: continued coverage of health insurance benefits and/or one-time incentive payments for one hundred fifteen employees.

During the year ended June 30, 2018, the cost of termination benefits for the fiscal year was $867.3 thousand and $6.1 million for the State and its component units, respectively.

NOTE 8. RISK MANAGEMENT

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise funds. These pools include Hail Insurance, the Montana University System (MUS) Group Insurance Plan, the MUS Workers Compensation Program, and the Subsequent Injury claims-servicing pool. The State of Montana (Old Fund) provides risk financing as an entity other than a public entity risk pool. The liability and payment of the workers compensation claims for incidents occurring before July 1, 1990, are reported in the government-wide financial statements within the primary government. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. Additionally, the primary government reports its own risk management activity within two internal service funds: Employees Group Benefits Plans and Administration Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 764 policies during the 2018 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

To reduce its exposure to large losses, the fund purchased Crop Hail Quota Share Reinsurance for the 2018 growing season, with an 85% share of premiums and losses allotted to the Reinsurer and a 15% share of each allotted to the State Hail Insurance. The fund recorded a liability of $34.5 thousand which is 15% of the estimated claims ($209.0 thousand) plus adjustment expenses through June 30, 2018. The amount deducted from the estimated claims as of June 30, 2018, for reinsurance was $177.7 thousand (85% of estimated claims). The premiums ceded to the reinsurer through June 30, 2018 were $1.3 million which was 85% of total premiums of $1.6 million.

Any crop insurance liability is paid to the producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance or annuity contracts.

(2) Montana University System (MUS) Group Insurance Plan – This plan is authorized by the Regents and in Section 20-25-13, MCA. The Plan's purpose is to provide medical, dental, prescription drug, and related group benefits coverage to employees of the Montana University System and affiliates, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term care, long-term disability, and accidental death and dismemberment insurance. Delta Dental administers the dental plan, Blue Cross and Blue Shield of Montana administers the vision plan, and Navitus is the administrator for the prescription drug program. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source are the three third-party claims administrators for the self-insured managed care plan. Allegiance Benefit Plan Management, Blue Cross and Blue Shield of Montana, and Pacific Source have contracts for utilization management. The utilization management program consists of hospital pre-authorization and medical necessity review as well as large case management. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance enterprise fund. The claims liability is calculated by Actuaries Northwest and estimated to be $10.2 million as of June 30, 2018, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Montana University System (MUS) Workers' Compensation Program – This plan was formed to provide self-insured workers compensation coverage for employees of the MUS. The MUS Board of Regents provides workers'

compensation coverage under Compensation Plan Number One (Section 39-7-2101, MCA). The program is self-insured for workers' compensation claims with losses in excess of $750.0 thousand per occurrence ($500.0 thousand for claims occurring prior to July 1, 2013) and $1.0 million per aircraft occurrence covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of $1.0 million above the self-insured amount of $750.0 thousand ($500.0 thousand for claims occurring prior to July 1, 2013). During fiscal year 2018, the program ceded $323.5 thousand in premiums to reinsurers.

Premium rates for all participating campuses are established by the MUS Workers' Compensation Program Committee based on actuarial calculations of premium need and composite premium rate. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers' Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of $5.8 million for estimated claims at June 30, 2018. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, claims reserve development including the effects of inflation, and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(4) Subsequent Injury – The purpose of the Subsequent Injury Fund (SIF) is to assist individuals with a permanent impairment that may create an obstacle to employment by offering a financial incentive to employers to hire SIF-certified individuals. The program is funded through an annual assessment on Montana self-insured employers and a surcharge on premium for private insured and Montana State Fund policyholders.

The Employment Relations Division sets the assessment and surcharge rates annually. The rates are based on the total amount of paid losses reimbursed by SIF in the preceding calendar year, plus the expenses of administration, less other income earned. Covered employers share in the reimbursement of SIF based on the percentage of the compensation and medical benefits paid in Montana by their insurers for April 1st, of the previous fiscal year, through March 31st of the recent year.

The SIF program reduces the liability of the employer (if self-insured) or insurer by placing a limit of 104 weeks on the amount an employer (if self-insured), or the employer's insurer, will have to pay for medical and wage loss benefits in the event a worker who is SIF-certified becomes injured or re-injured on the job. SIF will assume liability for the claim when the 104 weeks is reached. The benefit to an insured employer is that the insurer's liability is limited to 104 weeks on the claim. This can favorably impact the employer's modification factor, which in turn can keep premiums lower than would otherwise be the case without SIF. For a self-insured employer, it provides a direct recovery of expenses paid for a workers' compensation claim. If a certified worker does become injured on the job, the worker remains entitled to all benefits due under the Workers' Compensation Act.

An estimated liability is recorded based on a projected cost analysis and total population of registered SIF participants. As of June 30, 2018, the amount of this liability was estimated to be $2.9 million.

(5) Changes in Claims Liabilities for the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	Hail Insurance		MUS Group Insurance Plan		MUS Workers Compensation	
	2018	2017	2018	2017	2018	2017
Unpaid claims and claim adjustment expenses at beginning of year	$ 2	$ 134	$ 10,000	$ 9,100	$ 7,298	$ 7,764
Incurred claims and claim adjustment expenses: provision for insured events of the current year	120	819	86,485	84,186	2,794	3,096
Less excess insurance reimbursement	-	-	-	-	-	-
Increase (decrease) in provision for insured events of prior years	12	434	-	-	(1,273)	(1,368)
Total incurred claims and claim adjustment expenses	132	1,253	86,485	84,186	1,521	1,728
Payments: Claims and claim adjustment expenses attributable to insured events of the current year	(85)	(817)	(86,285)	(83,286)	(605)	(940)
Claims and claim adjustment expenses attributable to insured events of prior years	(14)	(568)	-	-	(2,383)	(1,254)
Total payments	(99)	(1,385)	(86,285)	(83,286)	(2,988)	(2,194)
Total unpaid claims and claim adjustment expenses at end of year	$ 35	$ 2	$ 10,200	$ 10,000	$ 5,831	$ 7,298

B. Entities Other Than Pools

(1) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and State-administered foreclosure of housing units. The State self-insures the $2.0 million deductible per occurrence for most property insurance, as well as various deductible amounts for other State property. The State also self-insures against losses of property below $2.0 million of value, with State agencies paying the first $1.0 thousand. Commercial property insurance protects approximately $5.5 billion of State-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of $2.0 million for earthquake and $2.0 million for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Fund.

An annual actuarial study, prepared by Willis Towers Watson Company, and issued for the accident period July 1, 2008, through June 30, 2018, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. As of June 30, 2018, estimated claims liability was $15.2 million.

(2) Employee Group Benefits Plans – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracted with Allegiance as the third-party administrator for medical coverage. Delta Dental is the administrator for dental coverage. Navitus is the administrator for the pharmacy program. Contributions are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments. The contributions are recorded as revenue in the Employee Group Benefits internal service fund. As of June 30, 2018, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, as well as other actuarially determined liabilities, were $17.7 million as

provided by Actuaries Northwest, a consulting actuarial firm. In fiscal year 2019, $17.5 million of these claims liabilities are estimated to be paid.

(3) State of Montana (Old Fund) – State of Montana (Old Fund) covers workers' compensation claims that were incurred before July 1, 1990. Old Fund is a risk financing insurance entity; however, the participants within the pool are individuals outside of governmental entities.

An actuarial study prepared by Willis Towers Watson, as of June 30, 2018, estimated the cost of settling claims that have been reported, but not settled, and claims that have been incurred, but not reported. At June 30, 2018, $31.1 million of unpaid claims and claim adjustment expenses were reported at face value.

(4) Changes in Claims Liabilities for the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. Grandfathered claims are not included as they relate to future claims not yet incurred. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands).

	Administration Insurance Plans		Employers Group Benefits Plan		State of Montana Old Fund	
	2018	2017	2018	2017	2018	2017
Amount of claims liabilities at the beginning of each fiscal year	$ 16,054	$ 15,444	$ 17,696	$ 17,873	$ 32,212	$ 38,410
Incurred claims:						
Provision for insured events of the current year	4,714	4,786	171,930	159,835	-	-
Increase (decrease) in provision for insured events of prior years	11,070	17,592	(4,013)	518	6,002	1,554
Total incurred claims	15,784	22,378	167,917	160,353	6,002	1,554
Payments:						
Claims attributable to insured events of the current year	(1,852)	(1,681)	(154,468)	(142,173)	-	-
Claims attributable to insured events of prior years	(14,806)	(20,087)	(13,422)	(18,357)	(7,105)	(7,752)
Total payments	(16,658)	(21,768)	(167,890)	(160,530)	(7,105)	(7,752)
Total claims liability at end of each fiscal year	$ 15,180	$ 16,054	$ 17,723	$ 17,696	$ 31,109	$ 32,212

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2018, the Department of Transportation had contractual commitments of approximately $280.1 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matched with state special revenue funds.

B. Capital Construction

At June 30, 2018, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $38.3 million for capital projects construction. The primary government will fund $7.7 million of these projects, with the remaining $30.6 million funding coming from the Montana University System.

At June 30, 2018, Fish, Wildlife, and Parks (FWP) had contractual commitments of approximately $4.5 million for engineering and construction of various capital projects. The majority of the funding for these projects is to be provided by federal grants and state special revenue funds.

C. Loan and Mortgage Commitments

The Montana Board of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2018, BOI had committed, but not yet purchased, $29.4 million in loans from Montana lenders. In addition to the above commitments, lenders had reserved $5.9 million for loans as of June 30, 2018. As of June 30, 2018, another $3.5 million represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

The BOI makes reservations to fund mortgages from the State's pension funds. As of June 30, 2018, there were no mortgage reservations. All BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

The BOI makes firm commitments to fund loans from the INTERCAP loan program. The BOI's outstanding commitments to eligible Montana governments, as of June 30, 2018, totaled $38.0 million.

D. Department of Corrections Bond Commitments

At June 30, 2018, the outstanding tax-exempt bonds distributed by the Facility Finance Authority were issued in the amount of $14.3 million of which $1.9 million in principal payments are scheduled to be paid by June 30, 2019. These bonds have been issued to facilities operating treatment and prerelease centers. The Department of Corrections agrees to provide payment on behalf of the contractors for the total principal and interest regarding these outstanding bonds.

E. Department of Labor and Industry Commitments

At June 30, 2018, Department of Labor and Industry, had $3.2 million contractual commitments for Montana State AmeriCorps Programs and a $0.8 million commitment for IT contracts. The funding for these programs is federal grants and state special funds.

F. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net position in the accompanying financial statements as follows (in thousands):

Enterprise Funds	Amount
HUD Section 8	$ 69
Liquor Warehouse	25
Other Enterprise	4
Prison Industries	3
West Yellowstone Air	18
Subtotal - Enterprise funds	$ 119
Internal Service Funds	
Buildings & Grounds	$ 180
Labor Central Services	628
Print and Mail	1
SABHRS Finance and Budget Bureau	19
Warrant Processing	19
Subtotal - Internal Service funds	$ 847

G. Encumbrances

As of June 30, 2018, the State of Montana encumbered expenditures as presented in the table below (in thousands):

	Federal Special Revenue Fund	General Fund	Nonmajor Governmental Funds	State Special Revenue Fund	Total
Encumbrances	$ 20,335	$ 7,998	$ 68	$ 51,126	$ 79,527

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2018, were as follows (in thousands):

Fiscal Year Ending June 30:	Governmental Activities	Business-Type Activities
2019	$ 3,594	$ 219
2020	3,406	18
2021	3,066	—
2022	2,355	—
2023	1,273	—
2024 - 2028	570	—
Total minimum payments	14,264	237
Less: interest	(566)	(6)
Present value of minimum payments	$ 13,698	$ 231

Assets acquired under capital leases for the primary government by asset class were as follows (in thousands):

Asset Class	
Buildings	$ 1,988
Equipment	18,990
Less: Accum Depreciation	(5,025)
Net Book Value	$ 15,953

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2018 totaled $27.5 million. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30:	Governmental Activities	Business-Type Activities
2019	$ 23,965	$ 752
2020	19,240	572
2021	15,228	450
2022	14,189	453
2023	12,001	461
2024 - 2028	40,705	1,672
2029 - 2033	17,613	—
Thereafter	9,364	—
Total future rental payments	$ 152,305	$ 4,360

NOTE 11. STATE DEBT

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. No State debt shall be created unless authorized by a two-thirds vote of the members of each house of the Legislature or a majority of the electors voting thereon. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. Notes may not be issued to refund outstanding notes.

During fiscal year 2018, the State issued two bond anticipation notes. The proceeds of Water/Wastewater 2017B and Drinking Water 2017C will be used to fund water and wastewater system improvements and rehabilitation. As of June 30, 2018, no bond anticipation notes have been authorized but not issued. The State issued three bond anticipation notes during fiscal year 2016, two of which were paid off during fiscal year 2018 and one that is still active. The State issued one bond anticipation note in 2017 that is still active as of the end of fiscal year 2018. Drinking Water 2017C replaced Drinking Water 2016D. The following schedule summarizes the activity for the year ended June 30, 2018 (in thousands):

BANS	Beginning Balance	Additions	Reductions	Ending Balance
Coal Severance Tax – 2015A	$ 1,250	$ —	$ 1,250	$ —
Drinking Water – 2015B	1,540	1,000	2,190	350
Water/Wastewater – 2016C	825	1,000	1,825	—
Coal Severance Tax – 2016E [(1)]	1,034	346	200	1,180
Water/Wastewater – 2017B [(1)]	—	1,900	1,450	450
Drinking Water – 2017C [(1)]	—	900	—	900

(1) These bond anticipation notes have not been fully drawn at fiscal year-end.

The Board of Investments (BOI) of the State is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $190.0 million as amended by the 2007 Legislature. The purpose of the bonds is to provide funds for BOI to make loans to eligible government units. The bonds are not a debt or liability of the State. The bonds are limited obligations of BOI, payable solely from (1) repayments of principal and interest on loans made by BOI to participating eligible governmental units, (2) investment income under the indenture, and (3) an irrevocable pledge by BOI. BOI has no taxing power. The bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. BOI did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and were not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are included in short-term debt. The amounts issued and outstanding at June 30, 2018, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2018
2000	$ 15,000	$ 14,255
2003	15,000	14,330
2004	18,500	18,000
2007	15,000	14,695
2010	12,000	11,900
2013	12,000	11,970
2017	20,000	19,960
		$ 105,110

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2018 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Demand bonds	$ 107,880	$ —	$ 2,770	$ 105,110

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2018, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2019	Principal Payments In Year of Maturity (2)	Balance June 30, 2018
General obligation bonds						
Hard Rock Mining Reclamation	2002C	$ 2,500	3.5-4.7	$ 160	200 (2023)	$ 900
CERCLA Program (6)	2005D	2,000	3.25-4.3	105	140 (2026)	980
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	295	330 (2022)	1,250
Long-Range Bldg Program	2008D	3,100	3.375-4.35	145	220 (2028)	1,790
Long-Range Bldg Program Refunding	2010A	20,220	2.0-4.0	655	710 (2021)	2,050
Drinking Water Revolving Fund Refunding (3)	2010B	5,400	2.0-4.0	495	110 (2026)	2,245
Trust Land (Taxable)	2010F	21,000	1.55-4.9	940	1,450 (2031)	15,175
Long-Range Bldg Program	2010G	550	1.5-2.7	60	60 (2021)	180
Renewable Resource Program (Taxable) (4)	2010H	1,000	1.0-3.85	110	70 (2021)	290
Long-Range Bldg Program Refunding	2011D	5,755	3.0 -3.25	625	720 (2023)	3,360
Long-Range Bldg Program Refunding	2013C	6,780	2.0-4.0	635	115 (2025)	4,315
Water Pollution Control Revolving Fund (Taxable)(3)	2013D	1,035	0.4-3.7	100	120 (2024)	655
Water Pollution Control Revolving Fund (3)	2013E	5,000	2.0-3.0	500	575 (2024)	3,210
Long-Range Bldg Program Refunding	2014	28,810	1.5-5.0	1,940	820 (2028)	21,530
Long-Range Bldg Program Refunding	2015A	9,340	2.0-4.0	2,380	1,260 (2020)	3,640
Water Pollution Control Revolving Fund (3)	2015C	24,365	3.0-5.0	835	1,860 (2036)	22,890
Total general obligation bonds		$140,605		$ 9,980		$ 84,460
Special revenue bonds						
State Hospital Project (7)	1997	$ 25,915	4.0-5.05	$ 1,570	1,820 (2022)	$ 6,775
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	170	215 (2024)	1,155
Renewable Resource Program (8)	2010B	1,730	2.0-3.6	80	115 (2031)	1,225
Renewable Resource Program (Taxable) (8)	2010C	6,720	0.9-4.2	380	170 (2031)	4,315
U.S. Highway 93 GARVEE (9)	2012	50,915	0.9-1.9	10,590	11,040 (2020)	21,630
Renewable Resource Program (8)	2013A	2,255	2.0-3.625	135	185 (2029)	1,735
Renewable Resource Program (Taxable) (8)	2013B	3,390	1.0-4.75	200	290 (2029)	2,620
U.S. Highway 93 GARVEE Refunding (9)	2016	22,540	0.74-1.86	3,070	3,740 (2023)	16,980
Total special revenue bonds		$116,465		$ 16,195		$ 56,435

Governmental Activities	Amount Issued	Interest Range (%) (1)	Principal Payments Fiscal Year 2019	Principal Payments In Year of Maturity (2)	Balance June 30, 2018
Notes Payable					
Middle Creek Dam Project (10)	$ 3,272	8.125	$ 88	225 (2034)	$ 2,033
Tongue River Dam Project (11)	11,300	—	290	290 (2038)	5,795
ITSD Software Licenses	2,890	2.41	494	494 (2019)	494
ITSD IBM Mainframes Maintenance	500	1.07	126	127 (2020)	253
ITSD IBM Professional Services	758	0.19	159	72 (2023)	732
Total notes payable	$ 18,720		$ 1,157		$ 9,307
Subtotal governmental activities, before unamortized balances					150,202
Unamortized discount					(8)
Unamortized premium					9,095
Total governmental activities	$275,790		$ 27,332		$ 159,289

(1) The interest range is over the life of the obligation.
(2) Year of maturity refers to fiscal year.
(3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.
(4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
(5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.
(6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event cost recovery payments are insufficient.
(7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana State Hospital Project.
(8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.
(9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.
(10) U.S. Bureau of Reclamation loan to the Department of Natural Resources & Conservation.
(11) Northern Cheyenne Tribe loan to the Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2018, were as follows (in thousands):

	Governmental Activities					
	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
Year Ended June 30:	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 9,980	$ 3,350	$ 16,195	$ 2,234	$ 1,157	$ 63
2020	9,170	3,030	16,915	1,595	671	54
2021	8,120	2,735	6,160	947	552	48
2022	7,320	2,424	6,445	738	560	45
2023	7,085	2,117	4,860	518	466	41
2024 - 2028	25,975	6,772	4,575	756	2,041	204
2029 - 2033	11,490	2,589	1,285	70	2,185	204
2034 - 2038	5,320	408	—	—	1,675	41
Total	$ 84,460	$ 23,425	$ 56,435	$ 6,858	$ 9,307	$ 700

E. Summary of Changes in Long-term Liabilities

Primary government long-term liability activities for the year ended June 30, 2018, were as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Governmental activities						
Bonds/notes payable						
General obligation bonds	$ 98,625	$ —	$ 14,165	$ 84,460	$ 9,980	$ 74,480
Special revenue bonds	73,550	—	17,115	56,435	16,195	40,240
Notes payable	10,004	1,258	1,955	9,307	1,157	8,150
	182,179	1,258	33,235	150,202	27,332	122,870
Unamortized discount	(9)	1	—	(8)	—	(8)
Unamortized premium	11,202	—	2,107	9,095	—	9,095
Total bonds/notes payable (2)	193,372	1,259	35,342	159,289	27,332	131,957
Other liabilities						
Lease/installment purchase payable	6,537	9,778	2,617	13,698	3,352	10,346
Operating lease rent holiday	27	—	10	17	9	8
Pension benefits payable	4	—	—	4	2	2
Compensated absences payable (1)	103,565	53,794	55,600	101,759	55,317	46,442
Arbitrage rebate tax payable (1)	83	—	—	83	—	83
Estimated insurance claims (1)	65,962	189,703	191,652	64,013	29,396	34,617
Pollution remediation	208,781	3,021	13,157	198,645	22,162	176,483
Net pension liability	1,789,810	114,395	73,904	1,830,301	—	1,830,301
Total OPEB liability (3)	48,403	527	—	48,930	—	48,930
Total other liabilities	2,223,172	371,218	336,940	2,257,450	110,238	2,147,212
Total governmental activities long-term liabilities	$ 2,416,544	$ 372,477	$ 372,282	$ 2,416,739	$ 137,570	$ 2,279,169
Business-type activities						
Lease/installment purchase payable	$ 415	$ —	$ 184	$ 231	$ 213	$ 18
Compensated absences payable	2,047	1,029	1,034	2,042	1,033	1,009
Arbitrage rebate tax payable	23	—	6	17	—	17
Estimated insurance claims	20,242	88,138	89,420	18,960	13,877	5,083
Net pension liability	14,293	2,686	521	16,458	—	16,458
Total OPEB liability (3)	937	5	—	942	—	942
Total business-type activities long-term liabilities	$ 37,957	$ 91,858	$ 91,165	$ 38,650	$ 15,123	$ 23,527

(1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

(2) Deferred outflows, including those related to bonds payable, are reported separately on the Statement of Net Position based on GASB Statement No. 65.

(3) The total OPEB liability beginning balances were restated due to the implementation of GASB Statement No. 75. For more detail, see Note 7.

F. Refunded and Early Retired Debt

Prepayments

The Department of Natural Resources and Conservation (DNRC) used current available resources to make two prepayments: $350.0 thousand and $165.0 thousand on Series 2005F general obligation bonds resulting in a payoff.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The related debt issued does not constitute a debt, liability, obligation, or pledge of faith and credit of the State. Accordingly, these bonds and notes are not reflected on the accompanying financial statements.

Montana Board of Investments (BOI)
BOI is authorized to issue Qualified Zone Academy Bonds (QZAB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2018, QZAB debt outstanding aggregated $5.0 million.

BOI is also authorized to issue Qualified School Construction Bonds (QSCB) under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues of the borrower are pledged to repay the bonds. At June 30, 2018, QSCB debt outstanding aggregated $5.1 million.

Beginning Farm Loan Program
The Department of Agriculture is authorized to request issuance of bonds by BOI to finance projects for beginning farmers within the state, if it appears, after a properly noticed public hearing, that the project is in the public interest of the state. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State. The amount issued and outstanding at June 30, 2018, was as follows: Hershberger Project, outstanding $27.6 thousand.

H. Estimated Pollution Remediation Obligation

Estimated pollution remediation obligations are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The estimates are derived using the expected cash flows method as well as technical estimates from record of decisions, consent decrees and/or settlement agreements. There may be factors influencing the estimates that are not known at this time. Prospective recoveries from other responsible parties may reduce the State's obligation.

The State's estimated pollution remediation liability as of June 30, 2018, was $198.6 million. Of this liability, $11.7 million resulted in settlement agreements to provide restoration of natural resources, water supplies and natural resource-based recreational opportunities up to the settlement amount; $181.2 million is based on decrees or settlements for remediation activities. Other estimated liabilities have been recorded for soil and PCB contamination, as well as removal of asbestos contamination. The estimated pollution remediation liability was recorded in compliance with accounting and reporting standards and does not constitute the State's total acceptance of the liability or responsibility on these matters.

I. Nonexchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled $81.5 million as of June 30, 2018. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI receives a credit enhancement fee at FFA bond closing based on the term of the financing, the type of bond, the rating of the borrower, and the type of reserve fund. BOI and FFA have entered into an agreement detailing repayment to BOI. The credit enhancement fee received during the fiscal year was $449.0 thousand. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2018 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
$ 71,416	$ 36,470	$ 26,435	$ 81,451

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also include the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments' INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from origination.

Balances due from/to other funds at June 30, 2018, consisted of the following (in thousands):

	Due to Other Funds							
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds [3]	Nonmajor Governmental Funds	State Special Revenue	Total
Due from Other Funds								
Coal Severance Tax	$ —	$ —	$ —	$ —	$ —	$ 6	$ —	$ 6
Economic Development Bonds	—	—	—	1,700	—	1,615	—	3,315
Federal Special Revenue	—	—	1,917	—	—	—	663	2,580
General Fund	—	819	—	18	13,354	—	14,648	28,839
Internal Service Funds	1	—	8	—	—	—	4	13
Nonmajor Enterprise Funds	—	—	—	—	—	—	11	11
Nonmajor Governmental Funds [1]	—	197	—	—	—	—	131	328
State Special Revenue [2]	—	—	430	—	—	562	—	992
Total	$ 1	$ 1,016	$ 2,355	$ 1,718	$ 13,354	$ 2,183	$ 15,457	$ 36,084

(1) Total due from other funds to the non-major governmental funds on the financial statements is reported as $1.5 million. The difference of $1.2 million between the amount reported above of $328.0 thousand and the amount reported in the fund financial statements relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

(2) Total due from other funds to the state special revenue fund on the fund financial statement is reported as $10.6 million. The difference of $9.6 million between the amount reported above of $992.0 thousand and the amount reported in the fund financial statement relates to long-term receivables. The receivables are reported on the fund financial statement and the long-term liabilities are reported on the government-wide statement.

(3) Total due to other funds from the non-major enterprise funds on the fund financial statement is reported as $13.6 million. The difference of $291.3 thousand between the amount reported above of $13.4 million and the amount reported on the fund financial statement relates to loans payable. The receivables are reported on the government-wide statement and the liabilities are reported on the fund financial statement.

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of origination.

Interfund loans receivable/payable at June 30, 2018, consisted of the following (in thousands):

	Interfund Loans Payable						
	Coal Severance Tax	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Land Grant	Total
Interfund Loans Receivable							
General Fund	$ 1,689	$ 65,260	$ —	$ 303	$ 5,215	$ —	$ 72,467
Internal Service Funds	—	35	—	—	—	—	35
State Special Revenue	—	60,204	12	—	—	6	60,222
Total	$ 1,689	$ 125,499	$ 12	$ 303	$ 5,215	$ 6	$132,724

C. Advances To/From Other Funds

Advances to/from other funds represent the portion of interfund loans that are not expected to be repaid within one year from the date of origination. Advances to/from other funds also include the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments' INTERCAP loan program. For more information on the INTERCAP loan program, refer to Note 11.

Advances to/from other funds at June 30, 2018, consisted of the following (in thousands):

	Advances from Other Funds				
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	State Special Revenue	Total
Advances to Other Funds					
Coal Severance Tax	$ —	$ —	$ 1,935	$ —	$ 1,935
Economic Development Bonds	—	4,206	1,350	—	5,556
General Fund	300	—	—	189	489
Nonmajor Governmental Funds	—	—	—	7,471	7,471
State Special Revenue	35,296	—	4,293	—	39,589
Total	$ 35,596	$ 4,206	$ 7,578	$ 7,660	$ 55,040

Additional detail for certain advance balances at June 30, 2018, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program

Departmental Function	Balance
Natural Resources and Conservation	$ 1,350
Transportation	4,206
Total	$ 5,556

D. Interfund Transfers

Routine transfers between funds are recorded to (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

Interfund transfers for the year ended June 30, 2018, consisted of the following (in thousands):

	Transfers Out								
	Coal Severance Tax	Federal Special Revenue	General Fund	Internal Service Funds (1)	Land Grant	Nonmajor Enterprise Funds (2)	Nonmajor Governmental Funds	State Special Revenue	Total
Transfers In									
Coal Severance Tax	$ —	$ —	$ —	$ —	$ —	$ —	$ 656	$ —	$ 656
Federal Special Revenue	—	—	81	—	—	—	—	2,437	2,518
General Fund	17,938	418	—	—	5	45,118	5,450	73,513	142,442
Internal Service Funds	—	—	1,194	—	—	—	—	529	1,723
Land Grant	—	—	—	—	—	—	—	5	5
Nonmajor Enterprise Funds	—	—	—	69	—	—	—	693	762
Nonmajor Governmental Funds	551	16,328	12,366	160	2,496	—	2,744	13,558	48,203
State Special Revenue	25,700	15,635	45,514	3	59,634	7,318	21,908	—	175,712
Total	$ 44,189	$ 32,381	$ 59,155	$ 232	$ 62,135	$ 52,436	$ 30,758	$ 90,735	$ 372,021

(1) Total transfers-out for internal service funds on the fund financial statements is reported as $904.0 thousand. The difference of $672.0 thousand between the amount reported above of $232.0 thousand and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the internal service fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

(2) Total transfers-out for nonmajor enterprise funds on the fund financial statements is reported as $52.4 million. The difference of $3.0 thousand between the amount reported above of $52.4 million and the amount reported on the fund financial statements relates to the transfer of capital assets between a governmental fund type and the nonmajor enterprise fund type. When capital assets are transferred between these fund types, the transferring fund reports the net book value of the capital asset as a transfer-out, and the receiving fund reports the net book value of the capital asset as a capital contribution.

NOTE 13. FUND EQUITY DEFICITS

The following funds have a deficit net position remaining at June 30, 2018, as follows (in thousands):

Fund Type/Fund	Deficit [1]
Governmental Funds	
Federal Special Revenue [2]	$ (10,069)
Internal Service Funds	
Information Tech Services	$ (13,046)
Admin Insurance	(417)
Building and Grounds	(594)
Admin Central Services	(1,617)
Labor Central Services	(4,982)
Commerce Central Services	(1,280)
OPI Central Services	(2,070)
DEQ Indirect Cost Pool	(4,223)
Payroll Processing	(1,837)
Investment Division	(3,286)
Aircraft Operation	(309)
Justice Legal Services	(438)
Personnel Training	(257)
Other Internal Services	(469)
Enterprise Fund	
State Lottery	$ (1,877)
Subsequent Injury	(1,573)
Local Government Audits	(137)

(1) The allocation of net pension and OPEB liabilities is a significant factor in creating these deficits. For more detail related to these liabilities, see Notes 6 and 7 respectively.

(2) The primary reason causing fund deficit in Federal Special Revenue Fund is due to CY2017 fire season federally reimbursable costs. The federal fund reimbursement was unavailable to receive within 60 days of 6/30/2018, creating a deferred inflow and a fund deficit in the same amount.

NOTE 14. MAJOR PURPOSE PRESENTATION

Special Revenue and Fund Balances Classifications by Purpose – In the governmental fund financial statements, classifications of special revenue fund revenues and fund balances are presented in the aggregate. The tables presented below further display the special revenue fund revenues and fund balances by major purpose for the year ending June 30, 2018.

State Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Licenses/permits	$ 73,544	$ 41,795	$ 22,009	$ 1,824	$ 159	$ 81,567	$ 220,898
Taxes	219,789	4,289	258,926	—	(1)	20,651	503,654
Charges for services	39,658	13,878	4,299	32,194	1,882	17,935	109,846
Investment earnings	554	1,287	206	134	186	7,215	9,582
Securities lending income	—	38	—	1	4	71	114
Sale of documents/ merchandise/property	2,208	2,830	104	100	17	4,741	10,000
Rentals/leases/royalties	317	20	438	48	5	406	1,234
Contributions/premiums	27,471	—	—	—	—	—	27,471
Grants/contracts/donations	1,705	693	561	11,896	5,378	4,041	24,274
Federal	6,944	36	2	2,356	—	—	9,338
Federal indirect cost recoveries	—	—	43,953	62	—	4,992	49,007
Other revenues	1,990	517	284	126	148	100	3,165
Transfers in	48,932	4,207	1,564	7,132	543	113,334	175,712
Total State Special Revenue	$ 423,112	$ 69,590	$ 332,346	$ 55,873	$ 8,321	$ 255,053	$ 1,144,295

Federal Special Revenue By Source (in thousands)

	General Government	Public Safety	Transportation	Health and Human Services	Education	Natural Resources	Total
Taxes	$ —	$ —	$ —	$ —	$ —	$ 1	$ 1
Charges for services	812	26	—	5,561	11,896	—	18,295
Investment earnings	212	9	—	—	127	99	447
Grants/contracts/donations	—	—	—	18	—	—	18
Federal	97,025	14,614	441,953	1,924,357	191,216	99,492	2,768,657
Federal indirect cost recoveries	9	—	—	66,546	94	697	67,346
Other revenues	3	6	—	499	3	5	516
Transfers in	81	1,403	—	1,034	—	—	2,518
Total Federal Special Revenue	$ 98,142	$ 16,058	$ 441,953	$ 1,998,015	$ 203,336	$ 100,294	$ 2,857,798

Governmental Fund Balance By Function, June 30, 2018
(in thousands)

		Special Revenue		Permanent			
	General	State	Federal	Coal Severance Tax	Land Grant	Nonmajor	Total
Fund balances:							
Nonspendable							
Inventory	$ 3,798	$ 21,030	$ —	$ —	$ —	$ —	$ 24,828
Permanent fund principal	—	500	—	561,938	710,197	334,376	1,607,011
Long-term notes/receivables	489	—	—	—	—	—	489
Prepaid expense	327	346	57	—	—	—	730
Total nonspendable	4,614	21,876	57	561,938	710,197	334,376	1,633,058
Restricted							
General government	—	18,273	—	—	—	5,942	24,215
Public safety	—	219,315	—	—	—	1	219,316
Transportation	—	85,046	—	—	—	—	85,046
Health and human services	—	3,438	—	—	—	6,329	9,767
Education	—	13,040	—	—	—	20	13,060
Natural resources	—	703,893	—	—	—	8,986	712,879
Total restricted	—	1,043,005	—	—	—	21,278	1,064,283
Committed							
General government	—	122,732	—	528,012	—	40,481	691,225
Public safety	—	48,094	—	—	—	—	48,094
Transportation	—	16,583	—	—	—	—	16,583
Health and human services	—	40,628	—	—	—	—	40,628
Education	—	16,094	—	—	—	—	16,094
Natural resources	—	292,048	—	—	—	32,491	324,539
Total committed	—	536,179	—	528,012	—	72,972	1,137,163
Assigned							
General government	—	—	—	—	—	23	23
Public safety	—	—	—	—	—	592	592
Encumbrance	7,998	—	—	—	—	—	7,998
Total assigned	7,998	—	—	—	—	615	8,613
Unassigned	186,707	—	(10,126)	—	—	—	176,581
Total fund balance	$ 199,319	$ 1,601,060	$ (10,069)	$ 1,089,950	$ 710,197	$ 429,241	$ 4,019,698

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs the Montana Guaranteed Student Loan Program (MGSLP), guarantees loans, prior to transferring its portfolio, owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a nonprofit corporation operating exclusively for the purpose of acquiring student loans. MHESAC has no employees and its business operations are managed by the Student Assistance Foundation (SAF). A Board of Regents board member is also a MHESAC Board of Directors member, an Office of the Commissioner of Higher Education staff member is a MHESAC officer, and the Commissioner of Higher Education is an Ex-Officio member of the board.

The Montana School for the Deaf and Blind is associated with a foundation, which is a nonprofit organization outside of state government. The school's foundation is governed by a board of directors that yearly approves a budget for the financial support to be provided to the school. This budget defines the allowable expense categories for the year. A school employee is the person approving the expenses to be paid by the foundation based on its budget. The employee submits the approved invoices to the foundation's bookkeeper, who then prepares the checks and submits them to a board member who reviews backup documentation and signs the checks.

The Department of Labor and Industry Workforce Services Division rents space in Libby, MT, from Mineral Plaza, LLC, in which one of the owners is a local job service manager. The term of the lease is July 1, 2013 and ending June 30, 2021. The annual lease amount is currently set at $21.3 thousand.

The relative of a member of Montana Department of Transportation's (MDT) Management Team is part owner of a business that holds a State term contract for supplies. A term contract is a contract in which a source for supplies is established for a specific period of time at a predetermined unit price. The term contracts are issued by the State Procurement Bureau of the Department of Administration and state agencies are required to use the DOA issued term contracts for such supplies. Statewide, MDT purchased supplies from this business in the amount of $112.6 thousand for the fiscal year ended June 30, 2018.

A relative of a member of MDT's Management Team is part owner of a business which has been granted the right by the local airport to operate and provide related services. There is only one such operator at this airport. Given this exclusivity, MDT had transactions with this business. Department-wide, MDT purchased services in the amount of $9.4 thousand for the fiscal year ended June 30, 2018.

MDT has proper conflict of interest procedures and internal controls in place for identified related party transactions.

Per Title 85, Chapter 1, part 6, MCA, Renewable Resource Grant and Loan Program, the department is eligible to issue GO bonds for the purpose of making private sale loans. Department of Natural Resources and Conservation has applied and received "recycled loan funds" from the SRF program for the non-point source private loan program. The loans are GO private sale bonds. The balances for loans in repayment for fiscal year 2018 was $4.3 million. The loans have interest rates ranging from 3.0% to 4.3% and are repaid over 15 years. These loans are presented as Advances to Other Funds on the balance sheets.

Per ARM 17.58.101, the Montana Petroleum Tank Release Compensation Board (Board) is an independent board that is attached to Department of Environmental Quality (DEQ) for administrative purposes only. Board members are required to follow Montana's code of ethics, that includes recusing oneself in matters related to a conflict of interest. To ensure we are following state law, all contracts are required to go through a competitive bidding process.

Four Board members were identified as having related party transactions with DEQ. These relationships include members who are: 1) an employee of a company that had a release and is receiving funds; 2) an agent for an insurer that covered a station tank release and is receiving funds; 3) a shareholder in a bank that receives funds; and 4) a contractor for DEQ, the agency responsible for clean-up oversite, who is also a shareholder of a separate company that receives funds. Total payments to all related parties were direct payments to the contractors in the amount of $164.5 thousand with a matching Board amount of $9.0 thousand and indirect payments to the bank and insurance company in the amount of $93.6 thousand and $15.9 thousand, respectively, for the fiscal year ended June 30, 2018.

NOTE 16. CONTINGENCIES

Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In State of Montana v. Philip Morris, Inc., No. CDV 97-306 (Mont. 1st Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties, and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for $1.0 million to be paid over a 20-year period. Next, Montana was among the Settling States that signed onto the 1998 Master Settlement Agreement (MSA) and settled its claims against the remaining manufacturers for a settlement amount calculated annually on cigarette sales by Participating Manufacturers in perpetuity. The base amount was augmented by $90.0 million in 1999 for a strategic contribution portion for those states instrumental in obtaining the settlement, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007 and ending in 2017. Multiple other tobacco product manufacturers joined the MSA after the initial signing period. Collectively, the signing manufacturers are known as "Participating Manufacturers."

The settlement provides that the tobacco product manufacturers may potentially offset, against their payment in any year, certain amounts of money if it is found that the Participating Manufacturers have lost more than 2% of their national market share (from 1997) to non-settling manufacturers (known as NPMs), and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment," may not be taken against the payments to any state that has enacted a "Qualifying Statute" and diligently enforced the statute during the year in question. Montana enacted such a Qualifying Statute in 1999, Section 16-11-401 to -404, MCA, and complimentary legislation in 2003, Section 16-11-501 to -512, MCA.

In March 2006, a determination was made (pursuant to the settlement) that the Participating Manufacturers had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. Similar findings have been made or agreed to for years 2004 through 2017. The State filed a motion in the Montana lawsuit seeking a declaration that it diligently enforced its Qualifying Statute during 2003. The Participating Manufacturers moved to compel arbitration of the question. The First Judicial District Court ordered arbitration, but was overruled on appeal to the Montana Supreme Court. Virtually all of the other Settling States filed similar motions or new actions in their various court systems preferring to litigate their diligent enforcement disputes in court rather than in the tobacco companies' proposed nationwide arbitration. Montana was the only state to prevail on its argument against arbitration before its highest state court. Montana then successfully defended the favorable ruling from a petition for rehearing in Montana and ultimately a *certiorari* petition to the U.S. Supreme Court filed by tobacco companies which the Court rejected.

Simultaneously, arbitration between the other Settling States and the tobacco companies commenced and proceeded to discovery. After the U.S. Supreme Court denied *cert* regarding Montana's participation in the arbitration, the tobacco companies sought and received a stay of Montana's litigation pending completion of the nationwide arbitration, effectively shutting Montana out of any opportunity for input or influence over standards for determining what constitutes "diligent enforcement," and potentially subjecting Montana to whatever standards may ultimately result from the ongoing nationwide arbitration for lack of any alternative interpretative precedent. Thereafter, the Montana Supreme Court granted Montana's writ for supervisory control, overturned the stay, and allowed the State's district court action to proceed to discovery.

The Montana litigation ended with entry of a stipulated consent decree on June 25, 2012, reflecting the tobacco companies' determination after initial discovery that they would not contest Montana's diligent enforcement during 2003. In the nationwide arbitration, and as applied to Montana's consent decree, a "no contest" determination for an individual state means that state would not participate in the NPM Adjustment for 2003, (*i.e.*, as a "no contest" state Montana had no reduction to its annual OPM settlement payments for 2003).

However, the "no contest" for 2003 has no precedential effect in any subsequent year for Montana or any other state's case. Accordingly, Montana was not subject to the 2003 NPM Adjustment, but the consent decree specifically articulated that Defendants' consent to its terms "is not a factual concession that Montana, in fact, did or did not diligently enforce the Montana Qualifying Statute in 2003 or any other year."

Despite Montana's successful defense of its 2003 and 2004 enforcement actions, no precedential protections exist, and the State remains vulnerable to further expected, litigation regarding its diligent enforcement in 2005-2017, for which years the Participating Manufacturers have already received a determination that MSA terms were a "substantial factor" reducing their market share and triggering an NPM Adjustment analysis with the potential to reduce annual payments for those Settling States which failed to diligently enforce their statutes.

The Participating Manufacturers conceded that Montana enacted a qualifying statute within the meaning of the MSA, which was in full force and effect during 2005-2016 and thereafter to date. Factual arguments exist to show that Montana diligently enforced its Qualifying Statute during 2005-2017. However, legal and procedural uncertainties exist that make an adverse determination possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the MSA annual payments to the State for years 2005-2017, which would be recouped through an offset of payments due to Montana in future years. The Participating Manufacturers will assert claims for NPM adjustments for future years as well. The outcome of these claims is also uncertain.

In 2015, certain Settling States and Participating Manufacturers commenced multi-state arbitration of the issue of diligent enforcement for calendar year 2004. Montana is not a party to this arbitration; this arbitration continues.

Montana filed a Declaratory Judgment Motion in 2017 for the 2004 NPM Adjustment to have its MSA Court (First Judicial District) declare that Montana had a qualifying statute in place and diligently enforced its Qualifying Statute for the 2004 calendar year. The Participating Manufacturers conceded that Montana has a Qualifying Statute. As part of this action, Montana successfully obtained a ruling from its MSA Court on the burden of proof whereby the Participating Manufacturers must prove that Montana did not diligently enforce its Qualifying Statute to succeed under the NPM Adjustment. Montana is the only state party to the MSA with this ruling on the burden of proof. On the eve of trial, the Participating Manufacturers settled with Montana for all of the 2004 NPM Adjustment funds previously withheld plus interest and earnings. The settlement does not provide precedent for future NPM Adjustment proceedings with the exception of the ruling on the burden of proof. A portion of tobacco litigation proceeds are to be received through an agreement made subsequent to the balance sheet date. Refer to Note 17 - *Subsequent Events* for additional information.

PPL v. Montana involves ownership of sections of riverbed on the Missouri, Clark Fork and Madison rivers. The case originated in 2003, when a group of parents of school age children sued PPL in Federal Court alleging that the company must pay rent for the use of state owned riverbeds to generate hydroelectric power. After the Federal Court dismissed the case for lack of jurisdiction, PPL filed an action in state district court seeking a declaration that the state could not charge them rent for use of the riverbeds at issue. The state intervened in the case and counterclaimed for a declaration that PPL and its co-plaintiffs unlawfully occupied state lands and must compensate the State land trust on behalf of its public beneficiaries for the use of those lands. The legal test for ownership of the riverbeds is whether the rivers at issue were navigable at the time of statehood. Based upon the historical record, the District Court granted the State summary judgment on the question of navigability and the case proceeded to trial on the issue of compensation for use of trust lands. In June of 2008, the Court issued its ruling and ordered that PPL owed the state almost $41.0 million for past use of the riverbeds.

PPL appealed the decision to the Montana Supreme Court. The case was briefed and argued before the Court, and in March of 2010, the Montana Supreme Court issued a decision upholding the district court's finding of navigability and determination of compensation.

PPL appealed the case to the United States Supreme Court. The case was briefed and argued, and in February of 2012, the Court reversed the Montana Supreme Court's decision. The United States Supreme Court concluded that the Montana courts had applied an incorrect legal standard for determining a river's navigability. The Court clarified that navigability had to be determined on a segment-by-segment basis. The Court remanded the case for further proceedings, and the case currently is pending in the Montana First Judicial District, Lewis and Clark County, Judge Michael

McMahon presiding. The cause number is CDV 2004-846. Additional detail is provided below as the case has been remanded to the United States District Court, District of Montana, Helena Division.

The most obvious impact of the Supreme Court's decision is that the State is no longer entitled to the $41.0 million judgment. The monetary amount that the State may be entitled to depends on the navigability of the rivers, which will have to be determined under the Supreme Court's segment-by-segment approach. Going forward, the litigation will focus on applying the Supreme Court's segmentation approach to determine the navigable reaches of the Madison, Clark Fork, and Missouri Rivers. At this stage, it is difficult to predict an outcome on this litigation.

A less obvious financial impact is the bill of costs that PPL submitted to the district court following the remand. PPL requested that the district court tax the State of Montana with $1.2 million for PPL's costs relating to the appellate proceedings. All, but approximately $31.0 thousand, relate to premiums that PPL paid for a supersedeas bond in support of staying the $41.0 million judgment. In May 2012, the State filed its response to PPL's bill of costs and agreed to costs for $31.3 thousand. However, the State moved the court to deny PPL's request for costs related to the supersedeas bond. The parties stipulated to hold this issue in abeyance until the court is able to rule on all remaining matters in the case. Counsel for the State has agreed to release the supersedeas bond. In the opinion of counsel, there are good legal arguments that support the State's position that it should not be required to pay the supersedeas bond premiums; however, legal and procedural uncertainties exist that make an adverse determination reasonably possible.

This case, also known as State of Montana v. Talen Montana, LLC et al. (Cause No. CV 16-35-H-DLC-JCL), was remanded to the United States District Court, District of Montana, Helena Division, and carries on with the Honorable Dana L. Christensen, United State Judge, assigned to further proceedings and entry of judgement. Several procedural motions have taken place since the prior fiscal year-end, but none that require the State to revise its earlier held opinion that no further potential liability to the State is expected relative to this action and no additional updates are necessary in regard to the outstanding litigation.

Spoklie v. Montana Department of Fish, Wildlife and Parks (Spoklie), Sheridan County Docket No. 11013, is the final pending case challenging the constitutionality of Initiative Measure 143 (I-143), which banned the issuance of new licenses for game farms in Montana, prohibited the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. The State moved for summary judgment and that motion is still pending. In the opinion of counsel, good defenses exist to all claims, and the possibility of an outcome adverse to the state is very remote.

Spoklie is the last in a long line of cases that were filed after passage of I-143. The following cases have been concluded in favor of the state: Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, Buhmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, and Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119. Wallace v. State of Montana, Ravalli County Docket No. 02-254, and Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, were previously dismissed without prejudice and have not been refiled. No other updates in relation to this pending action are known at this time.

Diaz et al. v. Blue Cross and Blue Shield of Montana et al. (Diaz), was a lawsuit filed in the Montana First Judicial District Court, Lewis and Clark County, Cause No. BVD-2008-956, in October 2008, by plaintiffs Jeanette Diaz, Leah Hoffman-Bernhardt, and Rachel Laudon, individually, and on behalf of others similarly situated, naming Blue Cross and Blue Shield of Montana (BCBS), New West Health Services (New West), Montana Comprehensive Health Association, State of Montana (State) as defendants. The complaint alleges that the defendants have violated the made-whole laws of Montana and illegally given themselves subrogation rights.

On June 12, 2009, Plaintiffs filed with the District court a motion for class certification. The District Court Judge denied Plaintiffs' motion for class certification on December 16, 2009. Plaintiffs appealed this decision to the Montana Supreme Court. As part of the review of the underlying decision denying class certification, the Montana Supreme Court remanded the case to the District Court to determine the question of whether the made-whole laws, codified in Section 2-18-902 and 33-30-1102, MCA, apply to the various types of third-party administrators (TPAs) at issue in Diaz. The District Court held that these laws do not apply to TPAs. Plaintiffs appealed this decision.

On December 21, 2011 the Supreme Court issued its decision, holding that the District Court abused its discretion in denying a class action and that BCBS and New West, as TPAs of the State's health plan, are not subject to the made-whole laws as "insurers" under Section 2-18-901 to -902, MCA, or under a third party beneficiary theory.

On June 20, 2012, the District Court ruled on the State's summary judgment motion seeking an order from the court that the State has not violated the made-whole laws in the administration of its health plan. The court denied the State's motion, ruling that the State is an insurer for the purposes of the made-whole laws and that it must conduct a made-whole analysis before exercising and subrogation/coordination of benefits rights. The State filed with the District Court a motion requesting that the court certify its decision to the Montana Supreme Court. The District Court granted the motion, and the Montana Supreme Court, over Plaintiffs' objection, ultimately agreed in a November 27, 2012, Order to hear this issue. The Plaintiffs also appealed to the Montana Supreme Court the District Court's definition of the class action.

On August 6, 2013, the Montana Supreme Court issued its opinion, affirming the Montana First Judicial District Court's decision defining the class action to include only those State benefit plan members who had timely filed claims for covered benefits within eight years before the filing of the Plaintiffs' complaint.

On November 6, 2013, the Montana Supreme Court issued its opinion, affirming the District Court's June 20, 2012, decision that the applicable made-whole laws apply to the State benefit plan.

On September 8, 2014, the District Court issued an order ruling on several motions that the parties had filed. The principal rulings were: (i) the Court authorized Plaintiffs to proceed with additional discovery to determine if the class definition should be altered or amended; (ii) given its order to allow additional discovery, the Court held in abeyance its decision on the State's Motion for Summary Judgment requesting that the class be limited to those who timely filed claims within the one-year filing restriction contained in the State's policy; (iii) the Court granted the Plaintiffs' motions asking the Court to require the State conform its health plans, procedures, notices and practices to comply with the Montana Supreme Court's rulings in this case and to pay covered medical expenses, await the resolution of claims against liability carriers, and then conduct a made-whole determination before it can exercise subrogation or accept reimbursements from its members or providers; and (iv) the Court ordered the parties to develop a class notice to be sent to past and current plan members dated back to eight years before this suit was filed. The State and Plaintiffs' counsel are currently working on the notice.

On April 13, 2015, the District Court issued an Order on Interest to Be Paid, requiring the State to include in the payments ultimately made to class members' interest at the rate of 10% per annum. For claims arising before December 24, 2009, interest will begin 30 days following the Montana Supreme Court's decision in Blue Cross and Blue Shield of Montana, Inc. v. Montana State Auditor. For any claims arising after December 24, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

On October 5, 2015, the Plaintiffs filed with the District Court a motion directing the State to pay attorney fees arising from the class action suit. On November 9, 2015, the District Court issued an order denying Plaintiffs' motion for attorney fees.

On December 14, 2015, the District Court issued an order certifying that its orders concerning interest and attorney fees were final for purposes of an appeal to the Montana Supreme Court. On January 12, 2016, the Plaintiffs filed a Notice of Appeal with the Montana Supreme Court, appealing the interest and attorney fee orders.

Pursuant to the Montana Supreme Court's mandatory mediation process, the parties reached a settlement on attorney fee payments; however, the parties did not reach agreement on the interest issue. On October 25, 2016, the Montana Supreme Court issued its ruling on the interest issue, finding that November 14, 2009, is the date that interest commences; and, for claims arising after November 14, 2009, interest will begin starting on the day the underlying medical expenses were incurred.

As of June 30, 2016, the State booked an accrual of approximately $1.5 million, which includes a base payment plus interest consistent with the District Court's April 13, 2015, order. Interest will be recalculated based on the Supreme Court's October 25, 2016, decision.

On April 28, 2017, the District Court appointed a Special Master to consider and resolve issues regarding expanding the class to persons with unsubmitted claims; whether to include claims after 2009; whether the State must identify members from third party administrators other than Blue Cross/Blue Shield; whether, if at all, the State must reform its systematic practices; supervising the payment and notice process; which party or parties should pay the Special Master for her time and expenses; whether the District Court should approve a partial payment of attorney fees; setting a time frame for making claims; setting a time for ending the class action; determining payment of residual funds; and any other issues as necessary to facilitate the swift and equitable resolution of the case. The Special Master has held several hearings regarding these issues and a recommended decision is expected to be issued in early 2018.

On June 21, 2017, the Special Master issued a report and recommended order regarding the partial payment of Plaintiffs' counsels' attorney fees. This recommendation was based on a stipulation the State and the Plaintiffs' counsel had reached, agreeing that the State would pay counsel $400.8 thousand for claims made by individuals that could be documented. The State has paid this amount to class counsel.

The Special Master issued a second report and recommended order expanding the class on August 8, 2018. The principal findings of this recommendation are to expand the class definition to include those individuals who did not submit claims to the State for processing; to expand the class to end June 30, 2016; and to redefine the class as (a) employees, employee dependents, retirees and retiree dependents who participate or participated in the State of Montana's health benefit plan(s), administered or operated by the State and/or the third party administrators whose claims for covered benefits took place no earlier than eight years prior to the filing of the complaint in this action, which was October 23, 2008; (b) who were injured through the legal fault of persons who have legal obligations to compensate them for all damages sustained; and (c) who have not been made whole for their damages (or for whom the State and TPAs conducted no made whole analysis) because the State and the third party administrators programmatically failed to pay benefits for their covered medical costs. The District Court Judge has yet to approve these recommendations.

As of June 30, 2018, the State paid Plaintiffs $1.7 million in base payments plus interest. Since the case is ongoing, the State does not have sufficient information to determine the ultimate cost to the State.

Lair, et al. v. Mangan, et al. is a challenge to the State's campaign contribution limits. The case has been ongoing for several years and the same case has been referred to as Lair v. Bullock and Lair v. Motl through its progression. The state won at the Ninth Circuit Court of Appeals, but the plaintiffs have petitioned for certiorari at the United States Supreme Court, which is pending. If the Court grants certiorari and the State were to ultimately lose the case, the plaintiffs' claim for attorney fees would likely be over $1.0 million, although the State would contest that amount.

Langford v. Bullock (Cause # 93-CV-46) is a civil rights case over conditions of confinement at the Department of Corrections' (Department), Montana State Prison (MSP) in Deer Lodge, MT. The court imposed a consent decree against the Department in 1994, with continued monitoring by the court until the Department is in full compliance. The consent decree obligates the State to come into full compliance with the Americans with Disabilities Act. Since about 2014, the Department has assumed the additional responsibility to pay attorney's fees for Plaintiffs' counsel (ACLU), which have not been submitted since 2008. On June 19, 2018, the Federal District Court accepted the revised Class Action Settlement Agreement, which includes the Department's agreement to pay attorney's fees. The parties are currently in the process of attempting to negotiate a resolution to the attorney's fees requested. At the moment, the Class attorneys indicated they would be seeking in the neighborhood of $1.5 million in attorney's fees for a period spanning from 2008 until the present. The Department will likely contest that amount before the Court. That projected sum does not include the anticipated two-year monitoring period as well. At this time, the Department can state that it will have a financial obligation in excess of $700.0 thousand for past attorney's fees and costs, but cannot be more specific about the anticipated amount of financial obligation.

Disability Rights Montana v. Batista (Cause # CV-15-22) is a civil rights case filed by the ACLU of Montana on behalf of Plaintiff, alleging deliberate indifference in the provision of mental health care to seriously mentally ill inmates at Montana State Prison. The District Court dismissed the case for failure to state a claim, which order has been appealed by Plaintiffs to the Ninth Circuit Court of Appeals. The Department of Corrections (Department) has exchanged settlement proposals and has met with the Plaintiffs and their counsel to discuss potential settlement. The Plaintiff's chances of success of getting the lower court's decision overturned are fair, given the current political climate in the Ninth Circuit as it relates to placing seriously mentally ill inmates in restrictive housing. The Plaintiff has made a number of unreasonable demands that would cost the Department millions of dollars and at least $800.0 thousand in

attorney's fees and undisclosed expert witness fees. At this time the Department cannot specify an anticipated amount of financial obligation.

Michael Jackson v. Montana Department of Corrections (Department), Montana State Prison (MSP) (Cause # DV-18-70) is a case pending in Powell County District Court. Mr. Jackson is a current employee, suing the Department for allowing race discrimination at MSP and creating a hostile work environment. He is seeking lost wages, humiliation, and emotional distress damages as well as attorney's fees and costs. The Human Rights Bureau found no reasonable cause in his claims. His chances of success are poor to fair. The Department has hired outside legal counsel to represent it in this matter. At this time, the Department cannot specify an anticipated amount of financial obligation.

Kila Sheperd v. Montana Department of Corrections (Department) is a Step III Grievance proceeding, in accordance with 2.21.8017, Administrative Rules of Montana (ARM), and the Department has hired outside counsel to represent it regarding Ms. Sheperd's termination from her position at the Department. Ms. Sheperd seeks in excess of $1.0 million for punitive damages, lost wages, loss of benefits, emotional distress, and attorney's fees.

Montana Health Care Association, et al, v. Department of Public Health and Human Services (Cause # DDV-2018-565) is a case filed by a group of Medicaid nursing facility providers, alleging a violation of the Montana Administrative Procedure Act and other related allegations. The rules in question set Medicaid reimbursement rates at 2.99% less than the previously set rates. The potential liability for this case is estimated to be between $3.0 and $3.2 million. An unfavorable outcome is reasonably possible.

Smith, et al. v. State of Montana (Cause # BDV-2018-804) is a case filed by a group of Medicaid recipients as well as a group of Medicaid providers. The allegations include violations of the Montana Administrative Procedure Act and other related allegations. The complaint also includes an alleged violation of the Americans with Disabilities Act based on a reduction in rates and resulting reductions in services. The rules in question set Medicaid reimbursement rates at 2.99% less than the previously set rates, as well as a reduction in rates for targeted Case Management. The potential liability in this case is estimated to be between $19.0 and $21.0 million. An unfavorable outcome is reasonably possible.

Moody's Market, Inc. et al. v. Montana State Fund, Montana Board of Investments, and State of Montana (Cause # DV-18-12) is a case filed by a group of Montana State Fund (MSF) policyholders, in Lake County District Court, in an effort to prevent the Board of Investments (BOI) from charging a 3% management fee on any single investor whose average portfolio balance held by BOI is greater than $1.0 billion. This fee was allowed to be assessed in accordance with Senate Bill 4 passed during the Special Legislative Session of November 2017. The legislation required the BOI fee to be deposited into the fire suppression fund of the State of Montana (State). As of June 30, 2018, a total of $14.7 million in MSF assets had been transferred. No action beyond procedural activities have taken place in relation to this proceeding and no additional updates are available at this time.

The Public Employee Retirement Board (PERB) has one item of outstanding litigation in relation to the Sheriffs' Retirement System (SRS). Refer to Note 6, section I for additional disclosure in relation to this legal proceeding.

The Montana State Fund, a discretely presented component unit of the State, has four items of litigation, in addition to the case listed above, in relation to their operations and underlying statutory authority governing the program. Refer to Note 18, section O for additional disclosure in relation to these legal proceedings.

Federal Contingencies

Food Distribution Program – The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #10.570) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the State to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. The State also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2018, the State distributed $1.1 million of food commodities under CFDA #10.567 to other states.

The State of Montana distributed $10.4 million in commodities in fiscal year 2018. The value at June 30, 2018, of commodities stored at the State's warehouse is $2.1 million for which the State is liable in the event of loss. The State has insurance to cover this liability.

Miscellaneous Contingencies

Loan Enhancements – As of June 30, 2018, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Economic Development Bonds Fund and the Facility Finance Authority (a component unit of the State of Montana), totaling $186.6 million. The BOI's exposure to bond issues of the Economic Development Bonds Fund was $105.1 million, while exposure to bond issues, surety bonds, and designated loans of the Facility Finance Authority was $81.5 million. The BOI has not been held responsible on any loan guarantee in the past.

Gain Contingencies – Certain natural resource and corporate tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2018, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General Fund
Corporate Tax	$ 14,613

Collectability of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. The corporate tax assessments include material estimates that could result in a significant reduction of the tax assessed once actual numbers are provided. Interest related to corporate tax assessments is distributed to the General Fund and is included in the assessment total above.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2018. The corporations have appealed the department's decision to deny or adjust the refund. As of June 30, 2018, these include $5.2 million of General Fund corporate tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2018. As of June 30, 2018, these include $1.9 million of protested property taxes recorded in the General Fund and $2.2 million recorded in the State Special Revenue Fund.

NOTE 17. SUBSEQUENT EVENTS

Investment Related Issues

Since June 30, 2018, the Board of Investments (BOI) made additional commitments to fund loans from the INTERCAP loan program in the amount of $5.9 million.

On July 6, 2018, the BOI terminated one manager in the Domestic Equity Asset within Consolidated Asset Pension Pool (CAPP). The approximate market value of the transition was $80.0 million.

In August based on Board action, the BOI approved an additional loan guarantee from the Coal Severance Tax Permanent Fund to Montana Facility Finance Authority totaling $11.0 million. The BOI also directed the Trust Fund Investment Pool (TFIP) purchase of the Montana direct real estate owned within CAPP for $19.4 million.

On September 28, 2018, the BOI sold PEPAC limited partnerships to an outside 3rd party in a secondary sale. The proceeds of these sales were $50.0 million.

The BOI's Executive Director retired September 28, 2018 and a new Executive Director started September 29, 2018.

On October 16, 2018, the BOI reallocated assets in the Domestic Equity Asset Class within CAPP from a commingled fund to a new manager. The approximate market value of the transition was $500.0 million.

Since June 30, 2018, the BOI has committed an additional $200.0 million to alternative equity partnerships within CAPP, including allocations of: $80.0 million within the Private Equity Asset Class; $40.0 million within the Natural Resource Asset Class; and $80.0 million within the Real Estate Asset Class.

Since June 30, 2018, the BOI has received an additional $16.7 million in loan reservations from Montana Lenders and committed to $435.0 thousand in loans from the Coal Severance Tax Permanent Fund.

During fiscal year 2017, the BOI requested a 100% redemption in the amount of $174.0 million from one manager, pertaining to investments from CAPP, TFIP, and Separately Manged Investments (SMI). Since June 30, 2017, total redemptions in the amount of $116.4 million have been received, of which $10.6 million was received since June 30, 2018. The BOI is confident that the full redemption will be received over a reasonable time period.

Since June 30, 2018, the BOI has received recovery payments associated with the recovery of previously written off losses in the amount of $1.8 million and $270.0 thousand interest.

Other Subsequent Events

On July 18, 2018, the State and Participating Manufacturers, who are parties to the case of the State of Montana v. Phillip Morris, Inc. disclosed in Note 16 - *Contingencies*, have entered into a settlement agreement in the amount $27.0 million, including $3.4 million in back payments and interest, in relation to the State's 2004 NPM adjustment.

On October 15, 2018, the court, in relation to the Smith, et al. v. State of Montana disclosed in Note 16 - *Contingencies,* issued an order dismissing all counts as moot.

On October 29, 2018, another order was received by the parties in the Smith case vacating the previous order and dismissing most counts as moot. The remaining counts include an allegation that the Department of Health Human and Human Services (DPHHS) failed to allow meaningful participation in the decision-making process. In addition, the court issued a separate order, in relation to the Montana Health Care Association, et al., v. DPHHS disclosed in Note 16, dismissing nearly all counts. The two remaining counts include an allegation that the DPHHS has failed to use a bed tax fee appropriately, reducing the reimbursement rate the Plaintiffs would otherwise be receiving, and an allegation that the DPHHS failed to allow meaningful participation in the decision-making process.

In accordance with 2017 Special Legislative Session Senate Bill 9 and based on fiscal year 2018 unaudited General Fund revenue totals, $45.7 million was transferred into the Budget Stabilization Reserve Fund during fiscal year 2019. In addition, $45.7 million was returned to State agency fiscal year 2019 budget appropriations and $21.3 million will remain in the General Fund.

NOTE 18. COMPONENT UNITS

A. Condensed Financial Statements

Below are the condensed financial statements of the component units for the State of Montana as of June 30, 2018 (in thousands):

Condensed Statement of Net Position

Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund [1]	Montana State University	University of Montana	Total Component Units
Assets:						
Cash, investments and other assets	$ 617,012	$ 7,956	$ 1,664,968	$ 660,979	$ 542,772	$ 3,493,687
Due from primary government	—	—	—	393	790	1,183
Due from component units	—	—	—	1	270	271
Capital assets (net) (Note 18C)	1	—	28,219	512,638	387,258	928,116
Total assets	617,013	7,956	1,693,187	1,174,011	931,090	4,423,257
Deferred Outflows of Resources	826	45	6,114	40,675	31,266	78,926
Liabilities:						
Accounts payable and other liabilities	9,106	22	116,294	72,797	67,264	265,483
Due to primary government	—	10	—	4,058	2,320	6,388
Due to component units	—	—	—	270	1	271
Advances from primary government	—	—	—	16,737	19,434	36,171
Long-term liabilities (Note 18I)	455,133	214	1,043,687	384,652	245,451	2,129,137
Total liabilities	464,239	246	1,159,981	478,514	334,470	2,437,450
Deferred Inflows of Resources	81	37	229	2,406	8,622	11,375
Net Position:						
Net investment in capital assets	1	—	28,219	341,185	281,439	650,844
Restricted	153,518	—	—	307,122	335,535	796,175
Unrestricted	—	7,718	510,872	85,459	2,290	606,339
Total net position	$ 153,519	$ 7,718	$ 539,091	$ 733,766	$ 619,264	$ 2,053,358

(1) Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2017.

Condensed Statement of Activities

Component Units

	Montana Board of Housing	Facility Finance Authority	Montana State Fund (1)	Montana State University	University of Montana	Total Component Units
Expenses	$ 20,996	$ 515	$ 227,078	$ 584,734	$ 447,609	$ 1,280,932
Program Revenues:						
Charges for services	1,516	613	166,768	280,592	189,675	639,164
Operating grants and contributions	19,336	2,208	—	176,777	150,945	349,266
Capital grants and contributions	—	—	—	5,219	191	5,410
Total program revenues	20,852	2,821	166,768	462,588	340,811	993,840
Net (expense) program revenues	(144)	2,306	(60,310)	(122,146)	(106,798)	(287,092)
General Revenues:						
Unrestricted grants and contributions	—	—	—	111	—	111
Unrestricted investment earnings	—	—	73,073	8,899	17,108	99,080
Transfer from primary government	—	—	—	126,803	101,843	228,646
Gain (loss) on sale of capital assets	—	—	(50)	378	—	328
Miscellaneous	—	—	1,085	—	—	1,085
Contributions to term and permanent endowments	—	—	—	10,587	10,786	21,373
Total general revenues and contributions	—	—	74,108	146,778	129,737	350,623
Change in net position	(144)	2,306	13,798	24,632	22,939	63,531
Total net position – July 1 – as previously reported	153,328	5,270	525,304	663,615	560,251	1,907,768
Adjustments to beginning net position	335	142	(11)	45,519	36,074	82,059
Total net position – July 1 – as restated	153,663	5,412	525,293	709,134	596,325	1,989,827
Total net position – June 30	$ 153,519	$ 7,718	$ 539,091	$ 733,766	$ 619,264	$ 2,053,358

(1) Montana State Fund reports their financial statements on a calendar-year basis. The information provided is for the year ended December 31, 2017.

B. Cash/Cash Equivalents and Investments

Due to the integration of funds and combined financial information, component unit cash and cash equivalents, equity in pooled investments and investments are included with the primary government in Note 3.

C. Capital Assets

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the “Other” caption for this schedule:

	Montana State University	University of Montana	Other	Total
Capital assets not being depreciated:				
Land	$ 8,323	$ 8,306	$ 1,139	$ 17,768
Construction work in progress	52,380	26,503	1,385	80,268
Capitalized collections	9,856	18,342	—	28,198
Livestock for educational purposes	3,913	—	—	3,913
Total capital assets not being depreciated	74,472	53,151	2,524	130,147
Capital assets being depreciated:				
Infrastructure	44,999	9,904	—	54,903
Land improvements	26,048	16,370	—	42,418
Buildings/Improvements	688,048	617,047	27,941	1,333,036
Equipment	162,718	94,009	7,268	263,995
Livestock	—	255	—	255
Library books	67,779	62,341	—	130,120
Leasehold improvements	3,810	—	—	3,810
Total capital assets being depreciated	993,402	799,926	35,209	1,828,537
Total accumulated depreciation	(570,732)	(469,360)	(9,633)	(1,049,725)
Total capital assets being depreciated, net	422,670	330,566	25,576	778,812
Intangible assets	2,182	941	120	3,243
MSU Component Unit capital assets, net	13,314	—	—	13,314
UM Component Unit capital assets, net	—	2,600	—	2,600
Discretely Presented Component Units capital assets, net	$ 512,638	$ 387,258	$ 28,220	$ 928,116

D. Other Postemployment Benefits (OPEB)

Non-university component units are included in the State of Montana benefit plan, whereas the Office of the Commissioner of Higher Education (included in the primary government otherwise) is included in the Montana University System benefit plan. For these reasons component unit OPEB information is included in Note 7.

Montana State Fund (MSF), prepares separately issued financial statements on a calendar year-end basis. Due to the difference in reporting period, MSF is currently reporting the OPEB liability within GASB 45 valuation requirements. For note disclosure requirements for MSF under GASB 45, please refer to Note 1 for how to attain separately issued financial statements.

E. Risk Management

Montana State Fund (MSF or New Fund) is the only component unit risk pool. Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years for MSF. This fund uses the accrual basis of accounting. Montana State Fund investments are recorded at fair value, and the premiums and discounts are amortized using the scientific interest method over the life of the securities.

(1) Montana State Fund (MSF) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990. MSF is a self-supporting, competitive State fund, and functions as the guaranteed market. At December 31, 2017, approximately 24,000 employers were insured with MSF. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to MSF within specified time frames.

An actuarial study prepared by Willis Towers Watson, as of December 31, 2017, estimated the cost of settling claims that have been reported but not settled, and claims that have been incurred but not reported. Due to the fact that actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques in order to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of December 31, 2017, $919.7 million of unpaid claims and claim adjustment expenses were presented at face value.

Section 39-71-2311, MCA, requires MSF to set premiums, at least annually, at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. It also requires MSF to establish a minimum surplus above risk-based capital requirements to support MSF against risks inherent in the business of insurance.

For the year ended December 31, 2017, MSF ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts, and an aggregate stop loss contract which protects MSF against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium. The excess of loss contract provides coverage up to $100.0 million in which MSF retains the first $5.0 million for the first layer of reinsurance coverage. The excess of loss protection applies to an individual occurrence with the maximum of $5.0 million on any one life.

The term of the current aggregate stop loss contract is January 1, 2017 through December 31, 2019. The contract provides coverage based on MSF's premium levels not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations, under either the excess of loss contracts or the aggregate stop loss contract, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

Premium revenue was reduced by premiums paid for reinsurance coverage of $9.8 million during the year ended December 31, 2017.

Estimated claim reserves were reduced by $1.4 million as of December 31, 2017, for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract and an additional $12.0 million for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the aggregate stop loss contract.

(2) Changes in Claims Liabilities for the Past Two Years – As indicated above, this fund establishes liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following table presents changes (in thousands) in the aggregate liabilities for Montana State Fund net of estimated reinsurance recoverable. The information presented is at face value and has not been discounted.

	Year Ended December 31, 2017	Year Ended December 31, 2016 (1)
Unpaid claims and claim adjustments expenses at beginning of year	$ 921,532	$ 900,296
Incurred claims and claim adjustment expenses:		
Provision for insured event of the current year	137,222	139,240
Increase (decrease) in provision for insured events of prior years	(14,195)	(7,986)
Total incurred claims and claim adjustment expenses	123,027	131,254
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	(24,597)	(23,086)
Claims and claim adjustment expenses attributable to insured events of prior years	(100,272)	(86,932)
Total payments	(124,869)	(110,018)
Total unpaid claims and claim adjustment expenses at end of year	$ 919,690	$ 921,532

(1) Changes in claims liabilities for the year ended December 31, 2016 are restated. In prior years, they were provided on a statutory accounting basis rather than the governmental accounting basis.

F. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2018, were as follows (in thousands):

Fiscal Year Ending June 30:	Discretely Presented Component Units
2019	$ 198
2020	134
2021	91
2022	47
2023	8
Total minimum payments	478
Less: interest	(42)
Present value of minimum payments	$ 436

G. Operating Leases

Future rental payments under operating leases at June 30, 2018, are as follows (in thousands):

Fiscal Year Ending June 30:	Discretely Presented Component Units
2019	$ 4,588
2020	4,754
2021	4,081
2022	3,175
2023	7,950
Thereafter	10,795
Total future rental payments	$ 35,343

H. Debt Service Requirements

Debt service requirements of discretely presented component units at June 30, 2018, were as follows (in thousands):

Year Ended June 30:	Montana Board of Housing		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 14,265	$ 14,943	$ 11,880	$ 7,817	$ 9,350	$ 3,429
2020	15,845	14,508	10,612	7,475	9,765	3,058
2021	16,335	14,149	10,504	7,111	10,125	2,656
2022	16,645	13,739	10,893	6,753	10,611	2,238
2023	17,200	13,275	6,721	6,436	11,277	1,811
2024 - 2028	96,885	57,655	36,108	27,870	29,787	4,636
2029 - 2033	100,075	40,472	31,130	20,808	11,275	1,670
2034 - 2038	81,955	23,329	30,477	13,878	3,645	314
2039 - 2043	59,975	10,588	29,561	7,702	—	—
2044 - 2048	24,375	2,607	19,264	1,540	—	—
2049 - 2053	1,970	51	—	—	—	—
Total	$ 445,525	$ 205,316	$ 197,150	$ 107,390	$ 95,835	$ 19,812

I. Summary of Changes in Long-term Liabilities Payable

Long-term liability activity of discretely presented component units for the year ended June 30, 2018, was as follows (in thousands):

	Beginning Balance [3]	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
Discretely presented component units						
Bonds/notes payable						
Montana Board of Housing	$ 446,617	$ 80,004	$ 74,752	$ 451,869	$ 14,265	$ 437,604
Montana State University (MSU)	160,167	58,601	11,903	206,865	11,880	194,985
University of Montana (UM)	92,046	14,125	9,053	97,118	9,385	87,733
Total bonds/notes payable [1]	698,830	152,730	95,708	755,852	35,530	720,322
Other liabilities						
Lease/installment purchase payable	456	93	113	436	173	263
Compensated absences payable	63,868	30,557	31,342	63,083	31,257	31,826
Arbitrage rebate tax payable	561	395	304	652	40	612
Estimated insurance claims	921,531	123,029	124,870	919,690	124,359	795,331
Due to federal government	32,509	260	951	31,818	—	31,818
Derivative instrument liability	4,188	—	1,108	3,080	—	3,080
Reinsurance funds withheld	75,739	11,969	1,838	85,870	—	85,870
Unearned compensation	391	—	—	391	—	391
Net pension liability	206,646	30,850	14,704	222,792	—	222,792
Total OPEB liability [2]	76,289	2,897	37,191	41,995	—	41,995
Total other liabilities	1,382,178	200,050	212,421	1,369,807	155,829	1,213,978
	$ 2,081,008	$ 352,780	$ 308,129	$ 2,125,659	191,359	1,934,300
Long-term liabilities of Montana University System component units [4]					(118)	3,596
Total discretely presented component units' long-term liabilities					$ 191,241	$ 1,937,896

(1) When applicable, this amount includes unamortized discounts and unamortized premiums.
(2) The total OPEB liability beginning balances were restated due to the implementation of GASB No. 75.
(3) Beginning balances are taken from component unit financial statements.
(4) Interentity transaction eliminations between Montana University System component units for debt shown in the component unit information can cause negative balances in component unit information.

J. Refunded and Early Retired Debt

Refunded Debt

On July 25, 2017, Montana State University issued Series D 2017 bonds in the amount of $21.0 million, to refund $8.3 million of the Series K 2006 and $12.7 million of the Series M 2011 bonds. As of June 30, 2018, the portion of the Series M 2011 bonds not refunded totaled $0.9 million.

Defeased Debt Outstanding

The University of Montana has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's consolidated financial statements. As of June 30, 2018, $85.2 million of bonds outstanding were considered defeased.

K. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Facility Finance Authority (FFA)
FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana, with the exception of the Montana State Hospital Project included in Note 11. At June 30, 2018, revenue bonds and notes outstanding aggregated $995.0 million.

The Board of Investments and FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16 for more information.

Montana Board of Housing (MBOH)
MBOH is authorized to issue bonds and make mortgage loans in order to finance affordable housing for Montana residents. The bonds are special limited obligations, payable solely from pledged revenues and assets of the borrower, not general obligations of MBOH. These bonds issued by MBOH do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2018, bonds outstanding aggregated $23.4 million.

L. Non-Exchange Financial Guarantee

BOI provides loan guarantees from the Coal Severance Tax Fund to the Facility Finance Authority (FFA). BOI exposure to bond issues, surety bonds, and designated loans of the FFA totaled $81.5 million as of June 30, 2018. FFA is a discretely presented component unit of the State of Montana. FFA guarantee requests are submitted to BOI for review and approval. BOI's participation, either duration or any other consideration, to either purchase bonds or loans or to lend money for deposit into FFA's statutorily allowed capital reserve account is explicitly limited by statute which requires BOI to act prudently. The guarantee requests from FFA pertain to bonds issued by FFA with a term of up to 40 years. BOI and FFA have entered into an agreement detailing repayment to BOI. BOI has not had to perform on any loan guarantee in the past.

The following schedule summarizes the activity related to the non-exchange financial guarantee during the year ended June 30, 2018 (in thousands):

Beginning Balance	Additions	Reductions	Ending Balance
$ 71,416	$ 36,470	$ 26,435	$ 81,451

M. Derivative Transactions Related to Long-term Debt

Montana State University (MSU) has two interest rate swaps as of June 30, 2018. Interest rate swaps are classified as hedging derivative instruments if the instruments meet the criteria of paragraphs 27 (a) and (b) of GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), or as investment derivative instruments if they do not.

Derivative Description	Trade Date	Effective Date	Termination Date	Terms	Counterparty
$25.75 million fixed payer swap	3/10/2005	7/21/2005	11/15/2035	Pay 3.953%, Receive SIFMA	Deutsche Bank AG
$25.25 million basis swap	12/19/2006	11/15/2007	11/15/2035	Pay SIFMA, Receive 86.8% of 10-year SIFMA	Morgan Stanley Capital Services Inc.

As of June 30, 2018, the fixed payer swap is classified as a hedging derivative instrument under GASB 53, whereas the basis swap is an investment derivative instrument because there is no identified financial risk being hedged by the basis swap that can be expressed in terms of exposure to adverse changes in cash flows or fair values. GASB 53 includes four methods for evaluating hedge effectiveness; a governmental entity may use any of the evaluation methods outlined in GASB 53 and is not limited to using the same method from period to period. The four methods described in GASB 53 are: consistent critical terms, synthetic instrument, dollar-offset, and regression analysis. In addition, GASB 53 permits a governmental entity to use other quantitative methods that are based on "established principles of financial economic theory." The fixed payer swap passes the established criteria using the regression analysis methodology.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. To measure non-performance risk for a derivative liability, credit spreads implied by the credit rating for debt issues by entities with similar credit characteristics were used. This is the best method available under current market conditions since MSU has no credit default swaps that actively trade in the marketplace. For a derivative asset, the adjustment for non-performance risk of counterparties was determined by analyzing counterparty-specific credit default swaps, if available. If not available, credit default swaps in the market for entities of similar type and rating were used, along with information found in various public and private information services. This analysis is used to construct a credit curve that is applied to the discount curve on the net settlement payments of the derivative.

The counterparty to the fixed payer swap had the right to terminate the swap at $0 on December 14, 2016 (a European option); this option was not exercised. As of the trade date, the option's value included intrinsic value and time value. The option's intrinsic value (calculated as the difference between the at-market rate of 4.11% and the off-market rate of 3.953%) is accounted for as a loan receivable and is repaid by the off-market portion of each swap payment. On September 10, 2010, the Series J bonds were converted to index bonds. While in index mode the interest rate is reset weekly at a rate of the Securities Industry and Financial Markets Association (SIFMA) rate plus a fixed spread. The spread is based on the long-term, unenhanced rating assigned to the issuer; the current spread as of June 30, 2018, was 0.65%. The dependent variable in the regression is the interest rates of the hedged cash flows; the independent variable is the floating rates due under the hedging derivative.

The fair value of the fixed payer swap liability as of June 30, 2018, is at fair value level 2, and was based on forward SIFMA rates using the three month Libor Zero Curve, and the BMA Swaption Volatility on the AA Rated Muni Revenue Curve. The fair value of the nonhedging derivative investment is also at level 2, and was based on forward SIFMA rates using the 10-year forward BMA constant maturity swap using the three month Libor Zero Curve, and the BMA Swaption Volatility on the counterparty's credit default swap.

The following table summarizes the reported balances as of, and the derivative instrument activity during, the year ended June 30, 2018 (in thousands):

		Activity During 2018		Fair Values at June 30, 2018	
Cash flow hedges:	**Notional**	**Classification**	**Amount**	**Classification**	**Amount**
Cash flow hedge –					
Pay fixed interest rate swap	$ 19,800	Interest expense	$ 20	Loan receivable	$ 230
		Investment income	—	Derivative liability	3,080
		Deferred outflow	(1,108)		
Investment derivative –					
Basis swap	$ 19,800	Investment loss	$ 412	Investment (excluding interest accrued)	$ 56

The objective and terms of MSU's hedging derivative outstanding as of June 30, 2018, is as follows (in thousands):

Type	Objective	Notional amount	Effective Date	Termination Date	Cash (Paid)/ Received	Terms
Pay fixed, cancelable interest rate swap	Hedge interest rate risk on Series J 2005 Bonds	$ 19,800	7/21/2005	11/15/2035	$ —	Pay 3.953% Receive SIFMA

Credit Risk

It is MSU's policy to enter into derivative agreements with highly rated counterparties. As of June 30, 2018, counterparty ratings were A3 and Baa2 by Moody's and A- and BBB+ by Standard and Poor's (S&P). MSU manages credit risk by requiring its counterparties to post collateral in certain events. MSU is entitled to collateral from its fixed payer swap counterparty if the interest rate swap's fair value is greater than $5.0 million and the counterparty is rated A+ or A, by S&P, or A1 or A2 by Moody's. If the counterparty to the fixed payer swap is rated A- or below, by S&P, or A3 or below by Moody's, MSU is entitled to collateral up to 100% of the swap's fair value. MSU is not required to post collateral. MSU will continue to monitor counterparty credit risk.

MSU enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, MSU has interest rate swaps with two different counterparties and each counterparty accounts for approximately 50% of outstanding notional. MSU monitors counterparty credit risk on an ongoing basis.

Interest Rate Risk

Interest payments on variable rate debt will typically increase as interest rates increase. MSU believes it has significantly reduced interest rate risk by entering into a pay-fixed, receive floating interest rate swap. As interest rates increase, net swap payments decrease so that changes in hedged variable-rate debt interest payments, attributable to SIFMA, are largely offset by the net swap payments.

Basis Risk

The variable-rate cash flows being hedged by the pay-fixed swap will increase or decrease as SIFMA rates increase or decrease. Because the hedged cash flows are SIFMA based and the floating receipts of the pay-fixed swap are SIFMA based, there is no basis risk.

Termination Risk

MSU or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, MSU's fixed payer swap counterparty has the right to terminate the derivative if the credit rating of MSU's unenhanced long-term revenue bond rating is withdrawn, suspended or reduced below BBB-, in the case of S&P, or below Baa3 in the case of Moody's. If such an event occurs, MSU could be forced to terminate the fixed payer swap in a liability position. As of June 30, 2018, MSU's unenhanced long-term revenue bond rating was Aa3 by Moody's and A+ by S&P.

Foreign Currency Risk
All hedging derivatives are denominated in US Dollars and therefore MSU is not exposed to foreign currency risk.

Market Access Risk
Market access risk is the risk that MSU will not be able to enter credit markets or that credit will become more costly. For example, to complete a derivative instrument's objective, an issuance of refunding bonds may be planned in the future. If at that time MSU is unable to enter credit market, expected cost savings may not be realized.

N. Related Party Transactions

Private nonprofit organizations with relations to the University of Montana (UM) include the Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club and the Montana Tech Alumni Association.

The associations and booster club operate exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with UM. For the years ended June 30, 2018, $237.8 thousand was transferred from or expended by the Montana Tech Booster Club for scholarships and construction projects. In exchange, UM provides the associations and booster club with office space, staff and some related office expenses.

MonTEC was established as a nonprofit 501(c)3 corporation in fiscal year 2001 as a result of an agreement between UM and the Missoula Area Economic Development Foundation (MAEDF). MonTEC provides low cost lease space and business consulting to local “start-up” companies. The corporation’s board of directors is comprised equally of members appointed by MAEDF and UM. UM does not provide office space or other services to MonTEC.

Private nonprofit organizations affiliated with Montana State University (MSU) include the MSU-Bozeman Bookstore, Friends of KUSM, and Friends of KEMC. Friends of Montana Public Television provided $1.2 million during 2018 and Friends of KEMC Public Radio provided $848.6 thousand during 2018 in support of MSU’s television and radio stations.

O. Litigation Contingencies

Susan Hensley v. Montana State Fund is based on a Petition for Hearing filed before the Workers’ Compensation Court in October 2013. The matter is Susan Hensley vs. Montana State Fund, WCC No. 2013-3235. Under House Bill 334, as passed by the legislature in 2011 and codified in section 39-71-703 (2), MCA, when a claimant receives a Class I impairment, it is not payable unless the claimant has an actual wage loss as a result of the compensable injury or occupational disease. The law was effective July 1, 2011, and applicable to claims that occurred on or after that date. The petitioner in this matter is challenging the constitutionality of section 39-71-703 (2), MCA. State Fund anticipates the chances are remote, but as with any litigated matter there is the possibility of an adverse decision. Should the statute be held unconstitutional, determined to be applicable to other claims and also determined to be retroactively applicable, potential liability is estimated to be at least $2.2 million per year, as based on NCCI initial pricing, and current estimated business volumes. However, based on experience, costs may be substantially higher than the estimate of $2.2 million per year.

Montana State Fund received another Petition for Hearing that was filed before the Workers’ Compensation Court. The matter is Steven Hanson v. Montana State Fund, WCC No. 2014-3398. This is a companion case to Susan Hensley v. Montana State Fund and has been held in abeyance pending a decision in Hensley.

Mak and Sons Concrete Construction Service v. Montana State Fund is a matter filed in the First Judicial District Court and involves the issue of whether the Montana State Fund breached its contract to provide workers' compensation insurance coverage. The Montana State Fund canceled Mak and Sons’ policy of insurance due to not receiving timely payment of premium. During the uninsured period, several employees of Mak and Sons were involved in a motor vehicle accident. As a result, Mak and Sons sued the Montana State Fund seeking to have coverage for the injuries as well as for breach of the contract of insurance and breach of the covenant of good faith and fair dealing.

P. Subsequent Events

In November 2017, the Board of Regents authorized the issuance of up to $4.5 million in Intercap debt to fund the construction of a student activity complex on the Montana State University (MSU) Bozeman campus that includes a turf field, lighting, and restrooms. A new student fee had previously been approved to service the debt. Funds had not yet been drawn as of June 30, 2018, but the University expects to draw $4.0 million during the year ending June 30, 2019.

In July 2018, MSU received authorization to refinance the Series J 2005 bonds with the issuance of Series F variable rate debt in the same principal amount of $19.8 million.

In August 2018, Single Family Mortgage Bonds, 2018 Series B, were issued by the Board of Housing for $50.0 million to be used for the purpose of acquiring additional mortgage loans in Montana.

On September 11, 2018, a resolution to issue Single Family Mortgage Bonds, Single Family Program Bonds, or Single Family Homeownership Bonds, in one or more series or subseries in an aggregate principle amount not to exceed $75.0 million with fixed or variable rates was passed by the Board of Housing.

In September 2018, MSU Billings received revised authorization to expend up to $17.1 million for design, renovation and construction of its Yellowstone Science and Allied Health Building. The 63rd Legislature had appropriated $10.0 million to the project dependent upon a $5.0 million match at the local level for a total authority of $15.0 million. The $5.0 million gift funding has now been committed by the MSU Billings Foundation, and a portion of the project will also be funded with student fees as was approved by student resolution.

In September 2018, the Department of Education informed the University of Montana (UM) that it was imposing a fine of $966.6 thousand for its failure to comply with the requirements of the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the Clery Act) in Section 485 (f) of the Higher Education Act of 1965, 20 U.S.C., Section 1092 (f). UM is appealing the imposed fine through the appeal process, outlined in 34 C.F.R., Part 668, Subpart G.

In November 2018, MSU Bozeman notified the Board of Regents of its intent to plan for the construction of a new academic facility, American Indian Hall, to create additional classrooms and student support space. In October 2018, the MSU Alumni Foundation announced an anonymous gift of $12.0 million, which, added to previous donations, totals nearly $16.0 million in private funds. The Associated Students of Montana State University also approved the use of $2.0 million in student building fees for the project in October 2018. The University intends to request approval both to expend the $2.0 in student building fees and approval to expend a maximum of $20.0 million for the project as a whole at the May 2019 meeting.

On November 16, 2018, a loan in the amount of $300.0 thousand was made to Ouellette Place Limited Partnerships from the Board of Housing's Multifamily funds. The funds will be used for financing of a housing development in Lewistown, Montana.

Q. Commitments

Montana State Fund (MSF or New Fund) is in the first phase of a multi-year project to replace its legacy policy management system. The total system replacement and change management cost is estimated to be almost $20.0 million. Vendor payments are based on successful completion of terms and an agreed payment schedule. Phase I payments are estimated to be about $10.0 million with milestones scheduled from January 2018 to September 2019. Costs during the application development phase will be capitalized and recorded as construction work in process until the system is deployed.

As of June 30, 2018, Montana State University (MSU) had issued purchase orders committing the expenditure of approximately $9.1 million for equipment, supplies and services which had not yet been received.

NOTE 19. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15, states that public retirement systems shall be funded on an actuarially sound basis. Public pension plans are considered actuarially sound if the unfunded accrued actuarial liability amortization period is within 30 years. As of June 30, 2018, the Game Warden & Peace Officers' Retirement System (GWPORS), the Highway Patrol Officers' Retirement System (HPORS), the Public Employees' Retirement System - Defined Benefit Retirement Plan (PERS-DBRP), and the Teachers' Retirement System (TRS) plans were not in compliance and do not amortize within 30 years. The unfunded liabilities in the other state retirement systems amortize in 30 years or less as of the fiscal year ended June 30, 2018.

BUDGETARTY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES				
Licenses/permits	$ 126,502	$ 126,502	$ 126,637	$ 135
Taxes:				
Natural resource	68,268	68,268	86,090	17,822
Individual income	1,320,808	1,320,808	1,285,132	(35,676)
Corporate income	168,763	168,763	166,393	(2,370)
Property	278,473	278,473	277,127	(1,346)
Fuel	—	—	—	—
Other	239,607	239,607	237,112	(2,495)
Charges for services/fines/forfeits/settlements	37,674	37,674	35,776	(1,898)
Investment earnings	—	—	12,805	12,805
Sale of documents/merchandise/property	337	337	334	(3)
Rentals/leases/royalties	7	7	7	—
Contributions/premiums	5,232	5,232	5,250	18
Grants/contracts/donations	4,020	4,020	10,856	6,836
Federal	21,068	21,068	21,154	86
Federal indirect cost recoveries	186	186	257	71
Other revenues	6,008	6,008	400	(5,608)
Total revenues	2,276,953	2,276,953	2,265,330	(11,623)
EXPENDITURES				
Current:				
General government	361,887	361,887	350,591	11,296
Public safety	321,098	321,098	311,184	9,914
Transportation	—	—	—	—
Health and human services	540,387	540,387	517,528	22,859
Education	1,016,098	1,016,098	1,007,891	8,207
Natural resources	33,290	33,290	31,394	1,896
Debt service (Note RSI-1):				
Principal retirement	—	—	22	(22)
Interest/fiscal charges	—	—	283	(283)
Capital outlay (Note RSI-1)	—	—	1,381	(1,381)
Total expenditures	2,272,760	2,272,760	2,220,274	52,486
Excess of revenue over (under) expenditures	4,193	4,193	45,056	40,863
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	—	—	—	—
General capital asset sale proceeds	110	110	96	(14)
Energy conservation loans	—	—	—	—
Transfers in (Note 12)	77,412	77,412	142,443	65,031
Transfers out (Note 12)	(251,893)	(251,893)	(59,155)	192,738
Total other financing sources (uses)	(174,371)	(174,371)	83,384	257,755
Net change in fund balances (Budgetary basis)	(170,178)	(170,178)	128,440	298,618
RECONCILIATION OF BUDGETARY/GAAP REPORTING				
1. Securities lending income	—	—	1	1
2. Securities lending costs	—	—	—	—
3. Inception of lease/installment contract	—	—	—	—
4. Adjustments for nonbudgeted activity	—	—	—	—
(GAAP basis)	(170,178)	(170,178)	128,441	298,619
Fund balance - July 1	—	—	66,984	66,984
Prior period adjustments	—	—	4,625	4,625
Increase (decrease) in inventories	—	—	(734)	(734)
Fund balances - June 30	$ (170,178)	$ (170,178)	$ 199,316	$ 369,494

The notes to the required supplementary information are an integral part of this schedule.
Budgetary data is not broken down to the same account level as actual financial statement data, which accounts for some of the larger variances.
The original and final budget figures reflect adjustments to the original budget for various reasons, including legislative and executive changes.

STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
$ 215,742	$ 215,742	$ 220,889	$ 5,147	$ —	$ —	$ —	$ —
73,861	73,861	82,085	8,224	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
18,257	18,257	18,284	27	—	—	—	—
301,245	301,245	258,920	(42,325)	—	—	—	—
144,681	144,681	146,245	1,564	7	7	1	(6)
113,026	113,026	105,587	(7,439)	16,409	16,409	18,295	1,886
—	—	6,775	6,775	—	—	448	448
13,123	13,123	9,899	(3,224)	2	2	—	(2)
919	919	967	48	—	—	—	—
26,908	26,908	27,421	513	—	—	—	—
12,239	12,239	11,285	(954)	49	49	18	(31)
7,646	7,646	7,859	213	2,811,215	2,811,215	2,768,657	(42,558)
52,032	52,032	48,945	(3,087)	65,362	65,362	67,345	1,983
5,512	5,512	2,795	(2,717)	966	966	516	(450)
985,191	985,191	947,956	(37,235)	2,894,010	2,894,010	2,855,280	(38,730)
314,817	314,817	199,816	115,001	234,735	234,735	92,685	142,050
90,542	90,542	72,333	18,209	42,070	42,070	15,824	26,246
331,293	331,293	220,366	110,927	514,017	514,017	111,201	402,816
171,562	171,562	153,331	18,231	2,237,129	2,237,129	1,997,224	239,905
90,975	90,975	75,176	15,799	282,062	282,062	209,620	72,442
367,883	367,883	220,970	146,913	167,567	167,567	92,184	75,383
—	—	634	(634)	—	—	32	(32)
—	—	355	(355)	—	—	5	(5)
—	—	55,971	(55,971)	—	—	328,856	(328,856)
1,367,072	1,367,072	998,952	368,120	3,477,580	3,477,580	2,847,631	629,949
(381,881)	(381,881)	(50,996)	330,885	(583,570)	(583,570)	7,649	591,219
247	247	299	52	—	—	—	—
144	144	1,787	1,643	24	24	31	7
—	—	1,589	1,589	—	—	—	—
277,830	277,830	171,578	(106,252)	17,379	17,379	2,517	(14,862)
(87,410)	(87,410)	(85,206)	2,204	(70,148)	(70,148)	(32,381)	37,767
190,811	190,811	90,047	(100,764)	(52,745)	(52,745)	(29,833)	22,912
(191,070)	(191,070)	39,051	230,121	(636,315)	(636,315)	(22,184)	614,131
—	—	113	113	—	—	—	—
—	—	(65)	(65)	—	—	—	—
—	—	312	312	—	—	—	—
—	—	(20,665)	(20,665)	—	—	—	—
(191,070)	(191,070)	18,746	209,816	(636,315)	(636,315)	(22,184)	614,131
—	—	1,581,457	1,581,457	—	—	12,078	12,078
—	—	1,691	1,691	—	—	39	39
—	—	(834)	(834)	—	—	—	—
$ (191,070)	$ (191,070)	$ 1,601,060	$ 1,792,130	$ (636,315)	$ (636,315)	$ (10,067)	$ 626,248

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The Constitution requires that legislative appropriations not exceed available revenues. The Legislature uses revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budget appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations for debt service activities are continuing through statutory authority until the obligation is extinguished. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's Office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2018, reverted governmental fund appropriations were as follows: $14.9 million in the General Fund, $117.0 million in the State Special Revenue Fund, and $196.7 million in the Federal Special Revenue Fund. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with Generally Accepted Accounting Principles (GAAP). The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end, compensated absences, capital assets and inventories purchased in proprietary funds, certain loans from governmental funds, and other miscellaneous nonbudgeted activity.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 2. PENSION PLAN INFORMATION

Required Supplementary Information
State of Montana as an Employer Entity

Judges' Retirement System
Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios[1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Total Pension Liability (TPL)				
Service costs	$ 1,628	$ 1,578	$ 1,653	$ 1,594
Interest	4,044	3,986	3,934	3,824
Differences between expected and actual experience	862	(1,341)	(1,032)	—
Changes of assumptions	3,865	—	—	—
Benefit payments	(3,554)	(3,416)	(3,041)	(3,023)
Net change in total pension liability	6,845	807	1,514	2,395
Total pension liability – beginning	53,953	53,146	51,632	49,237
Total pension liability – ending	$ 60,798	$ 53,953	$ 53,146	$ 51,632
Plan Fiduciary Net Position				
Contributions – employer	$ 1,800	$ 1,806	$ 1,684	$ 1,651
Contributions – member	488	729	534	481
Net investment income	10,368	1,779	3,843	12,421
Benefit payments	(3,554)	(3,416)	(3,041)	(3,023)
Administrative expense	(254)	(197)	(136)	(100)
Other	—	(3)	—	—
Net change in plan fiduciary net position	8,848	698	2,884	11,430
Plan fiduciary net position - beginning	87,805	87,107	84,223	72,793
Plan fiduciary net position - ending	$ 96,653	$ 87,805	$ 87,107	$ 84,223
Net Pension (Asset) – Beginning	$ (33,852)	$ (33,961)	$ (32,591)	$ (23,556)
Net Pension (Asset) – Ending	$ (35,855)	$ (33,852)	$ (33,961)	$ (32,591)
Plan fiduciary net position as a percentage of TPL	159%	163%	164%	163%
Covered payroll	$ 6,974	$ 6,920	$ 6,525	$ 6,355
Net pension (asset) as a percentage of covered payroll	(514)%	(489)%	(521)%	(513)%

Schedule of Employer Contributions[1]
For the Fiscal Year Ended June 30
(in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 1,085	$ 1,800	$ 1,786	$ 1,684
Contributions made in relation to the contractually required contributions	1,085	1,800	1,786	1,684
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 7,291	$ 6,974	$ 6,920	$ 6,525
Contributions as a percentage of covered payroll	15%	26%	26%	26%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Judges' Retirement System
Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.17%

Changes of assumptions: Amounts presented in reporting year 2016 reflect changes in eligibility for survivor's benefits. Assumptions in reporting year 2018 were updated in relation to refunds and related termination benefit amounts and for economic/market trends.

Required Supplementary Information
State of Montana as an Employer Entity

Highway Patrol Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30

(dollars in thousands)

	2018	2017	2016	2015
Total Pension Liability (TPL)				
Service costs	$ 3,665	$ 3,799	$ 3,598	$ 3,464
Interest	15,121	14,545	14,113	13,518
Changes in benefits	—	—	1,856	—
Difference between expected and actual experience	2,774	18	267	—
Changes of assumptions	7,892	—	—	—
Benefit payments	(11,037)	(10,482)	(10,001)	(9,443)
Refunds of contributions	(245)	(94)	—	—
Net change in total pension liability	18,170	7,786	9,833	7,539
Total pension liability – beginning	200,752	192,966	183,133	175,594
Total pension liability – ending	$ 218,922	$ 200,752	$ 192,966	$ 183,133
Plan Fiduciary Net Position				
Contributions – employer	$ 5,782	$ 5,916	$ 5,840	$ 5,736
Contributions – non-employer	263	243	—	—
Contributions – member	1,950	1,917	1,624	1,458
Net investment income	15,099	2,605	5,738	18,677
Benefit payments	(11,037)	(10,482)	(10,001)	(9,443)
Administrative expense	(248)	(197)	(144)	(109)
Refunds of Contributions	(245)	(94)	—	—
Other	—	(2)	—	—
Net change in plan fiduciary net position	11,564	(94)	3,057	16,319
Plan fiduciary net position – beginning	128,973	129,067	126,010	109,691
Plan fiduciary net position – ending	$ 140,537	$ 128,973	$ 129,067	$ 126,010
Net Pension Liability – Beginning	$ 71,779	$ 63,899	$ 57,123	$ 65,903
Net Pension Liability – Ending	$ 78,385	$ 71,779	$ 63,899	$ 57,123
Plan fiduciary net position as a percentage of TPL	64%	64%	67%	69%
Covered payroll	$ 14,779	$ 15,276	$ 14,549	$ 14,149
Net pension liability as a percentage of covered payroll	530%	470%	439%	404%

Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30

(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 5,843	$ 5,706	$ 6,161	$ 5,782
Contributions in relation to the contractually required contributions	5,843	5,706	6,161	5,782
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 15,251	$ 14,779	$ 15,276	$ 14,549
Contributions as a percentage of covered payroll	38%	39%	40%	40%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Highway Patrol Officers' Retirement System
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.28%

Changes of assumptions: Amounts presented in reporting year 2016 reflect changes in DROP participation and related assumptions. Amounts for reporting year 2018 reflect changes in working retiree, second retirement benefit, and refund requirements in addition to updates in underlying market and economic factors.

Required Supplementary Information
State of Montana as an Employer Entity

Game Wardens' and Peace Officers' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Total Pension Liability (TPL)				
Service costs	$ 8,623	$ 8,403	$ 8,008	$ 7,850
Interest	14,269	12,911	12,398	11,258
Difference between expected and actual experience	3,743	2,705	731	—
Changes of assumptions	5,878	—	—	—
Benefit payments	(5,810)	(5,068)	(5,352)	(5,229)
Refunds of contributions	(1,036)	(1,066)	—	—
Net change in total pension liability	25,667	17,885	15,785	13,879
Total pension liability – beginning	187,534	169,649	153,864	139,985
Total pension liability – ending	$ 213,201	$ 187,534	$ 169,649	$ 153,864
Plan Fiduciary Net Position				
Contributions - employer	$ 4,464	$ 4,278	$ 4,088	$ 3,762
Contributions - member	5,278	5,036	4,924	4,462
Net investment income	18,590	3,167	6,435	20,069
Benefit payments	(5,810)	(5,068)	(5,352)	(5,229)
Administrative expense	(329)	(269)	(200)	(162)
Refunds of contributions	(1,036)	(1,066)	—	—
Other	(1)	(31)	—	—
Net change in plan fiduciary net position	21,156	6,047	9,895	22,902
Plan fiduciary net position – beginning	154,685	148,638	138,743	115,841
Plan fiduciary net position – ending	$ 175,841	$ 154,685	$ 148,638	$ 138,743
Net Pension Liability – Beginning	$ 32,849	$ 21,011	$ 15,121	$ 24,144
Net Pension Liability – Ending	$ 37,360	$ 32,849	$ 21,011	$ 15,121
Plan fiduciary net position as a percentage of TPL	82%	82%	87%	90%
Covered payroll	$ 49,381	$ 47,108	$ 44,885	$ 41,637
Net pension liability as a percentage of covered payroll	76%	70%	47%	36%

Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 4,574	$ 4,447	$ 4,240	$ 4,040
Contributions in relation to the contractually required contributions	4,574	4,447	4,240	4,040
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 50,823	$ 49,381	$ 47,108	$ 44,885
Contributions as a percentage of covered payroll	9%	9%	9%	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
Game Wardens' and Peace Officers' Retirement System
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following key methods and assumptions were used to determine the contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of pay, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, net of pension plan investment expense, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.17%

Changes of assumptions: Amounts presented in reporting year 2016 reflect changes in survivor benefits from 2.0% to 2.5% of HAC, and requires membership election within 90 days. Amounts presented in reporting year 2018 reflect changes to limitations on working retirees and their related second retirement benefit. Assumptions in reporting year 2018 were also updated in relation to refunds and survivor benefit payment options.

Required Supplementary Information
State of Montana as an Employer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30

(dollars in thousands)

	2018	2017	2016	2015
Employer's proportion of the net pension liability	53.049189%	53.241100%	53.611080%	53.223780%
Employer's proportionate share of the net pension liability	$ 1,033,200	$ 906,880	$ 749,414	$ 663,174
Employer's covered payroll	$ 648,671	$ 621,755	$ 620,286	$ 597,083
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	159%	146%	121%	111 %
Plan fiduciary net position as a percentage of the total pension liability	74%	75%	78%	80%

Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30

(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 54,844	$ 56,256	$ 59,073	$ 58,575
Contributions in relation to the contractually required contributions	54,844	56,256	59,073	58,575
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 640,177	$ 648,671	$ 621,755	$ 620,286
Contributions as a percentage of covered payroll	9%	9%	10%	9%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, includes inflation
Salary increases	0% to 4.80%
Inflation	2.75%
Investment rate of return	7.65%, includes inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.26%

Changes of assumptions: Since reporting year 2016, assumptions for GABA, second retirements, and defined contribution (DC) law have been updated to match current law and plan provisions. Since reporting year 2018, assumptions for working retirees, terminations, refunds, disabled DC members, and special funding have been updated to reflect changes in law and plan provisions.

Required Supplementary Information
State of Montana as a Nonemployer Entity

Public Employees' Retirement System-Defined Benefit Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	1.007464%	0.956169%	0.956090%	0.961287%
Nonemployer's proportionate share of the net pension liability	$ 19,622	$ 16,287	$ 13,365	$ 11,978
Plan fiduciary net position as a percentage of the total pension liability	74%	75%	78%	80%

Schedule of Nonemployer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 34,706	$ 28,763	$ 30,800	$ 32,397
Contributions in relation to the contractually required contributions	34,706	28,763	30,800	32,397
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

Special Funding

The State contributes 0.1% of member compensation on behalf of local government entities per Section 19-3-319, MCA.

The State contributes 0.37% of member compensation on behalf of school district entities per Section 19-3-319, MCA.

Changes of assumptions: Since the 2018 reporting date, assumptions related to special funding provided have changed and may affect trends.

Required Supplementary Information
State of Montana as an Employer Entity

Sheriffs' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Employer's proportion of the net pension liability	4.856692%	5.454386%	5.637055%	5.535%
Employer's proportionate share of the net pension liability	$ 3,696	$ 9,582	$ 5,434	$ 2,304
Employer's covered payroll	$ 3,634	$ 3,850	$ 3,836	$ 3,580
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	102%	249%	141%	64%
Plan fiduciary net position as a percentage of the total pension liability	81%	63%	75%	87%

Schedule of Employer Contributions
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 496	$ 368	$ 389	$ 388
Contributions in relation to the contractually required contributions	496	368	389	388
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 3,781	$ 3,634	$ 3,850	$ 3,836
Contributions as a percentage of covered payroll	13%	10%	10%	10%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage Inflation	3.50%, includes inflation
Salary increases	0% to 6.30%
Inflation	2.75%
Investment rate of return	7.65%, includes inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, set back 1 year for males
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin expense as a % of payroll	0.21%

Changes of assumptions: Since the 2018 reporting date, assumptions related second retirement benefit payments, refund payment options to terminated employees, and funding requirements have been updated to reflect current plan provisions.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Municipal Peace Officers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	67.085433%	66.499650%	66.954111 %	66.888728%
Nonemployer's proportionate share of the net pension liability	$ 119,354	$ 119,708	$ 110,756	$ 105,106
Plan fiduciary net position as a percentage of the total pension liability	68%	66%	67%	67%

Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 15,283	$ 13,215	$ 13,752	$ 13,433
Contributions in relation to the contractually required contributions	15,283	13,215	13,752	13,433
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

> The State contributes 29.37% of member compensation on behalf of all employer entities per Section 19-9-702, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as an Employer Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Employer's proportion of the net pension liability	2.233929%	2.261523%	2.399255%	1.850026%
Employer's proportionate share of the net pension liability	$ 2,525	$ 2,583	$ 2,454	$ 1,806
Employer's covered payroll	$ 1,022	$ 974	$ 986	$ 735
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	247%	265%	249%	245%
Plan fiduciary net position as a percentage of the total pension liability	78%	75%	77%	77%

Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 518	$ 472	$ 475	$ 142
Contributions in relation to the contractually required contributions	518	472	475	142
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 1,103	$ 1,022	$ 974	$ 986
Contributions as a percentage of covered payroll	47%	46%	49%	14%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017. The following actuarial methods and assumptions were used to determine contractual contribution rates reported in that schedule:

Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Asset valuation method	4-year smoothed market
Wage inflation	3.50%, including inflation
Inflation	2.75%
Salary increases	0% to 6.30%
Investment rate of return	7.65%, including inflation
Mortality (healthy)	RP-2000 Combined employee and annuitant mortality table projected to 2020 using scale BB, males set back 1 year
Mortality (disabled)	RP-2000 Combined employee and annuitant mortality table
Admin as a % of payroll	0.23%

Changes of assumptions: Since the 2018 reporting date, changes in assumptions for working retiree limitations and effects on second retirement benefits, plan member election and participation, terminating employee provisions, and refund assumptions have been updates to reflect current plan provisions.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Firefighters' Unified Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	67.876338%	67.809541%	67.358196%	68.005182%
Nonemployer's proportionate share of the net pension liability	$ 76,724	$ 77,448	$ 68,892	$ 66,384
Plan fiduciary net position as a percentage of the total pension liability	78%	75%	77%	77%

Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 15,272	$ 14,042	$ 13,635	$ 13,573
Contributions in relation to the contractually required contributions	15,272	14,042	13,635	13,573
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of statutorily determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

> The State contributes 32.61% of member compensation on behalf of all employer entities per Section 19-13-604, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Volunteer Firefighters' Compensation Act
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	100%	100%	100%	100%
Nonemployer's proportionate share of the net pension liability	$ 10,087	$ 10,599	$ 10,504	$ 5,089
Plan fiduciary net position as a percentage of the total pension liability	78%	76%	76%	87%

Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 2,207	$ 2,054	$ 2,024	$ 1,913
Contributions in relation to the contractually required contributions	2,207	2,054	2,024	1,913
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of actuarially determined contributions: The statutorily determined contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

The State contributes 5% of certain fire tax insurance premiums paid per Section 19-17-301, MCA.

Changes of assumptions: Since the 2016 reporting year, benefit terms were updated to reflect plan provisions. In reporting year 2018, discount, inflation, mortality, and withdrawal assumptions were updated to better reflect market conditions and actual experience.

Required Supplementary Information
State of Montana as an Employer Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Employer's proportion of the net pension liability	2.860298%	3.121008%	3.422388%	4.689747%
Employer's proportionate share of the net pension liability	$ 48,227	$ 57,016	$ 56,230	$ 72,168
Employer's covered payroll	$ 26,944	$ 28,915	$ 31,252	$ 32,937
Employer 's proportionate share of the net pension liability as a percentage of its covered payroll	179%	197%	179%	219%
Plan fiduciary net position as a percentage of the total pension liability	70%	67%	69%	70%

Schedule of Employer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 17,298	$ 17,396	$ 16,946	$ 16,234
Contributions in relation to the contractually required contributions	17,298	17,396	16,946	16,234
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —
Covered payroll	$ 24,275	$ 26,944	$ 28,915	$ 31,252
Contributions as a percentage of covered payroll	71%	65%	58%	52%

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Changes of assumptions: Since reporting year 2015, assumptions about mortality, inflation, wage growth, and investment expenses were adjusted to more closely match actual experience and benefit statutes. Since reporting year 2016, termination benefits, assumed rate of university member retirements, load factors for university members, and COLA assumptions for Tier 2 members were updated to more closely reflect actual experience. Since reporting year 2017, the normal cost method was updated to align the most appropriate allocation of plan costs.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2017, determined as of June 30, 2017.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	22 years
Asset valuation method	4-year smoothed market
Inflation	3.25%
Salary increase	4.00% to 8.51%, including inflation for non-University Members and 5.00% for University Members
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

Required Supplementary Information
State of Montana as a Nonemployer Contributing Entity

Teachers' Retirement System
Schedule of Proportionate Share of the Net Pension Liability [1]
For the Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Nonemployer's proportion of the net pension liability	38.133267%	38.729473%	39.384625%	38.777294%
Nonemployer's proportionate share of the net pension liability	$ 642,958	$ 707,527	$ 647,092	$ 596,724
Plan fiduciary net position as a percentage of the total pension liability	70%	67%	69%	70%

Schedule of Nonemployer Contributions [1]
For the Fiscal Year Ended June 30
(dollars in thousands)

	2018	2017	2016	2015
Contractually required contributions	$ 43,718	$ 43,028	$ 42,400	$ 42,806
Contributions in relation to the contractually required contributions	43,718	43,028	42,400	42,806
Contribution deficiency/(excess)	$ —	$ —	$ —	$ —

[1] *Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

Method and assumptions used in calculations of contractually determined contributions: The contractually required contribution rates are set forth by the Legislature and are contained within the Montana Code Annotated (MCA). The amounts used for the valuation as of the year ended June 30, 2017, are as follows:

The State contributes 0.11% of the compensation of members participating per Section 19-20-604, MCA.

The State contributes 2.38% of member compensation on behalf of school district and community college entities per Section 19-20-607, MCA.

The State contributes a $25 million payment from the General Fund per Section 19-20-607, MCA.

Changes of assumptions: No changes in assumptions or other inputs that affected the measurement date have been made since the prior measurement date.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 3. OTHER POSTEMPLOYMENT BENEFITS PLAN INFORMATION (OPEB)

The State of Montana and MUS OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of the Total OPEB Liability in the related financial statements and note disclosures.

In accordance with GASB 75, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans for the State of Montana OPEB plan.

Total OPEB Liability and Related Ratios
Last 10 Fiscal Years [(1)]
(in thousands)

Total OPEB Liability		2018
Service cost	$	1,889
Interest		2,014
Changes of benefit terms		—
Difference between expected and actual experience		(4,723)
Changes of assumptions or other inputs		(295)
Benefit payments		1,705
Net change in total OPEB liability		590
Total OPEB liability - Beginning		49,869
Total OPEB Liability - Ending	$	50,459
State and discretely presented component units' proportion of the collective total OPEB liability		100%
Covered employee payroll	$	675,661
Total OPEB liability as a percentage of covered employee payroll		7.47%

(1) Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

Note to Schedule: No assets are accumulated in a trust that meets the criteria of GASB 75.

Factors that significantly affect trends in the amounts reported:

Changes of benefit terms, the medical plan coverage moved from Cigna to Allegiance as of January 1, 2016, the State plan implemented reference-based pricing hospital contracts effective July 1, 2016, the pharmacy plan moved from

URx to Navitus as of January 1, 2017, and the State plan implemented an employer group waiver program for Medicare retirees effective January 1, 2017.

In accordance with GASB 75, the following information is presented to reflect the funding progress of the Other Postemployment Benefits Plans for MUS plan.

Total OPEB Liability and Related Ratios
Last 10 Fiscal Years (1)
(in thousands)

Total OPEB Liability		2018
Service cost	$	1,954
Interest		1,410
Changes of benefit terms		—
Difference between expected and actual experience		(1,323)
Changes of assumptions or other inputs		(182)
Benefit payments		(679)
Net change in total OPEB liability		1,180
Total OPEB liability - Beginning		34,258
Total OPEB liability - Ending	$	35,438
State and discretely presented component units' proportion of the collective total OPEB liability		95.62%
Covered employee payroll (2)	$	434,243
Total OPEB liability as a percentage of covered employee payroll		8.53%

(1) Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.
(2) Amount reported is for the whole MUS plan, Community Colleges are included due to lack of ability to separate covered employee payroll.

Note to Schedule: No assets are accumulated in a trust that meets the criteria of GASB 75.

Factors that significantly affect trends in the amounts reported:

Changes of benefit terms, MUS plan increased the deductible, increased out-of pocket limits for Medical and Rx, increased visit copays, pharmacy moved from URx to Navitus as of July 1, 2017, employer group waiver program for Medicare retires became effective July 1, 2017, adopted combined annual visit max of 30 for multiple therapy services, and massage therapy moved into rehabilitation benefit.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI – 4. RISK MANAGEMENT TREND INFORMATION

The following tables present risk management trend information for the Hail Insurance Fund and the MUS Group Benefits Fund. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no development cycle. The MUS Group Benefits Fund has a three to five-year development cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

State of Montana Hail Insurance Program
Claims Development Information

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
1. **Premiums and investment revenue**										
Earned	$ 4,320	$ 5,918	$ 7,446	$ 8,309	$ 8,029	$ 7,101	$ 7,034	$ 6,710	$ 6,866	$ 6,846
Ceded	3,255	4,771	6,346	2,049	—	—	—	—	—	—
Net earned	1,065	1,147	1,100	6,260	8,029	7,101	7,034	6,710	6,866	6,846
2. **Unallocated expenses including overhead**	$ 448	$ 455	$ 424	$ 1,124	$ 1,033	$ 3,562	$ 2,308	$ 1,545	$ 2,637	$ 3,593
3. Estimated losses and expenses end of accident year	$ 120	$ 819	$ 324	$ 6,660	$ 13,511	$ 2,221	$ 4,608	$ 6,309	$ 3,961	$ 2,601
4. **Net paid (cumulative) as of:**										
End of policy year	$ 85	$ 817	$ 189	$ 6,643	$ 13,285	$ 1,881	$ 3,857	$ 6,144	$ 3,723	$ 2,248
One year later				—	—	—	—	—	—	—
Two years later					—	—	—	—	—	—
Three years later						—	—	—	—	—
Four years later							—	—	—	—
Five years later								—	—	—
Six years later									—	—
Seven years later										—
Eight years later										
Nine years later										
5. **Re-estimated ceded losses and expenses**	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
6. Re-estimated net incurred losses and expense:										
End of policy year	$ 120	$ 819	$ 324	$ 6,660	$ 13,511	$ 2,221	$ 4,608	$ 6,309	$ 3,961	$ 2,601
One year later				—	—	—	—	—	—	—
Two years later					—	—	—	—	—	—
Three years later						—	—	—	—	—
Four years later							—	—	—	—
Five years later								—	—	—
Six years later									—	—
Seven years later										—
Eight years later										
Nine years later										
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Montana University System – Medical, Dental, Vision, Rx Claims
Claims Development Information

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
1. **Premiums and investment Revenue**	$ 99,369	$ 100,693	$ 84,297	$ 80,764	$ 79,257	$ 76,505	$ 75,911	$ 73,078	$ 62,851	$ 59,573
2. **Unallocated expenses including overhead**	$ 5,111	$ 5,196	$ 5,129	$ 5,198	$ 4,787	$ 3,938	$ 4,063	$ 4,663	$ 3,629	$ 3,123
3. Estimated losses and expenses end of accident year	$ 90,427	$ 85,802	$ 87,233	$ 87,353	$ 71,877	$ 69,325	$ 64,331	$ 64,919	$ 65,575	$ 60,928
4. **Net paid (cumulative) as of:**										
End of policy year	$ 80,393	$ 75,601	$ 76,400	$ 79,388	$ 63,317	$ 61,964	$ 56,981	$ 57,018	$ 58,989	$ 54,121
One year later		$ 84,575	85,796	88,943	69,073	67,988	62,937	63,495	66,991	60,203
Two years later			85,894	89,261	69,074	68,024	62,968	63,538	67,022	60,260
Three years later				89,264	69,076	68,024	62,974	63,539	67,041	60,261
Four years later					69,076	68,024	62,974	63,539	67,041	60,261
Five years later						68,024	62,974	63,539	67,042	60,262
Six years later							62,974	63,539	67,042	60,262
Seven years later								63,539	67,042	60,262
Eight years later									67,042	60,262
Nine years later										60,262
5. **Re-estimated ceded losses and expenses**	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
6. Re-estimated net incurred losses and expense:										
End of policy year	$ 90,427	$ 85,802	$ 87,233	$ 87,353	$ 71,877	$ 69,325	$ 64,331	$ 64,919	$ 65,575	$ 60,928
One year later		84,567	86,148	88,824	71,700	68,349	63,446	63,941	67,006	60,208
Two years later			85,894	89,261	69,074	68,024	62,968	63,538	67,022	60,260
Three years later				89,264	69,076	68,024	62,974	63,539	67,041	60,261
Four years later					69,076	68,024	62,974	63,539	67,041	60,261
Five years later						68,024	62,974	63,539	67,042	60,262
Six years later							62,974	63,539	67,042	60,262
Seven years later								63,539	67,042	60,262
Eight years later									67,042	60,262
Nine years later										60,262
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	$ —	$ (1,236)	$ (1,339)	$ 1,912	$ (2,800)	$ (1,302)	$ (1,357)	$ (1,380)	$ 1,467	$ (666)

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
CORPORATION FOR NATIONAL & COMMUNITY SERVICE			
94.003	State Commissions		$274,072
94.006	AmeriCorps	$2,982,207	$3,175,527
94.009	Training and Technical Assistance		$53,750
94.013	Volunteers in Service to America		$785,751
		TOTAL	**$4,289,100**
	CORPORATION FOR NATIONAL & COMMUNITY SERVICE TOTAL		**$4,289,100**
DEPARTMENT OF AGRICULTURE			
10.001	Agricultural Research Basic and Applied Research		
	South Dakota State University 3TG612		($37)
10.025	Plant and Animal Disease, Pest Control, and Animal Care		$1,055,632
10.093	Voluntary Public Access and Habitat Incentive Program		$335,770
10.162	Inspection Grading and Standardization		$35,553
10.163	Market Protection and Promotion		$168,540
10.170	Specialty Crop Block Grant Program - Farm Bill	$325,632	$1,292,023
10.200	Grants for Agricultural Research, Special Research Grants		$57,312
10.227	1994 Institutions Research Program		
	Fort Belknap College 2002-38424-12433		$206
10.310	Agriculture and Food Research Initiative (AFRI)	$7,501	$64,516
	University of Idaho BDK489-SB-001		$8,898
10.433	Rural Housing Preservation Grants		$1,000
10.435	State Mediation Grants		$24,983
10.460	Risk Management Education Partnerships		$21,656
10.464	Socially Disadvantaged Farmers and Ranchers Policy Research Center		
	Fort Peck Community College		$38,013
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		$906,949
10.500	Cooperative Extension Service	$4,504	$3,095,804
	Kansas State University S17157		$12,217
	Kansas State University S18142		$3,875
	Kansas State University S17115		$14,802
	University of Missouri C00055873-6		$13,765
	University of Missouri C00059381-8		$8,119
10.541	Child Nutrition-Technology Innovation Grant		$52,915
10.547	Professional Standards for School Nutrition Employees		$252,617

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	$4,364,750	$14,071,011
10.558	Child and Adult Care Food Program	$652,051	$12,008,082
10.560	State Administrative Expenses for Child Nutrition		$925,950
10.567	Food Distribution Program on Indian Reservations	$1,749,982	$6,100,002
10.572	WIC Farmers' Market Nutrition Program (FMNP)	($669)	$50,399
10.576	Senior Farmers Market Nutrition Program	$83,911	$95,860
10.578	WIC Grants To States (WGS)		$511,598
10.579	Child Nutrition Discretionary Grants Limited Availability	$55,000	$519,760
10.582	Fresh Fruit and Vegetable Program	$1,685,619	$1,771,526
10.601	Market Access Program		
	U.S. Livestock Genetics Export, Inc.		$46,544
	Western U.S. Agricultural Trade Association		$1,886
10.605	Quality Samples Program		$38,126
10.652	Forestry Research	$1,210	$622,751
	National Wilderness Stewardship Alliance WI2018		$1,824
10.664	Cooperative Forestry Assistance	$2,246,720	$4,118,897
10.674	Wood Utilization Assistance	$3,500	$20,000
10.676	Forest Legacy Program		$7,020,282
10.678	Forest Stewardship Program	$488	$488
10.680	Forest Health Protection	$85,450	$138,344
10.683	National Fish and Wildlife Foundation		$4,300
10.691	Good Neighbor Authority		$120,496
10.699	Partnership Agreements		$353,719
10.855	Distance Learning and Telemedicine Loans and Grants		$53,850
10.902	Soil and Water Conservation	$308,601	$391,981
10.912	Environmental Quality Incentives Program		
	Adams Ranch 2014 MOU		$1,224
	Mark Machler 2014 MOU		$9,544
10.924	Conservation Stewardship Program		$12,463
10.931	Agricultural Conservation Easement Program		$1,632,283
10.UXX	Miscellaneous Non-Major Grants		$177,283
		TOTAL	**$58,285,601**
Child Nutrition Cluster			
10.553	School Breakfast Program	$10,228,514	$10,330,749
10.555	National School Lunch Program	$28,713,358	$32,569,725

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients		Expenditures
10.556	Special Milk Program for Children	$8,148		$8,148
10.559	Summer Food Service Program for Children	$2,080,951		$2,149,657
			TOTAL	**$45,058,279**
Food Distribution Cluster				
10.565	Commodity Supplemental Food Program			$1,950,083
10.568	Emergency Food Assistance Program (Administrative Costs)	$146,026		$315,928
10.569	Emergency Food Assistance Program (Food Commodities)			$1,349,476
			TOTAL	**$3,615,487**
Forest Service Schools and Roads Cluster				
10.665	Schools and Roads - Grants to States	$15,119,644		$15,119,644
			TOTAL	**$15,119,644**
SNAP Cluster				
10.551	Supplemental Nutrition Assistance Program			$163,015,980
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	$366,830		$10,961,844
			TOTAL	**$173,977,824**
			DEPARTMENT OF AGRICULTURE TOTAL	**$296,056,835**
DEPARTMENT OF COMMERCE				
11.549	State and Local Implementation Grant Program			$44,744
11.550	Public Telecommunications Facilities Planning and Construction			
	Corporation for Public Broadcasting 1492			$103,257
11.611	Manufacturing Extension Partnership			$561,629
11.620	Science, Technology, Business and/or Education Outreach			$160,553
			TOTAL	**$870,183**
Economic Development Cluster				
11.307	Economic Adjustment Assistance			$370,958
11.307	Economic Adjustment Assistance			$2,677,370
			TOTAL	**$3,048,328**
			DEPARTMENT OF COMMERCE TOTAL	**$3,918,511**
DEPARTMENT OF DEFENSE				
12.002	Procurement Technical Assistance For Business Firms			
	Big Sky Economic Development Corporation SP4800-17-2-1722			$67,062
	Big Sky Economic Development Corporation SP4800-16-2-1622			$6,122
12.112	Payments to States in Lieu of Real Estate Taxes			$5,700

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
12.357	ROTC Language and Culture Training Grants		
	Institute of International Education 2606-UMT-G-5-GO-051-PO7		$308,262
	Institute of International Education 2603-UMT-5-GO-051-POS		$97,030
12.400	Military Construction, National Guard		$2,866,929
12.401	National Guard Military Operations and Maintenance (O&M) Projects		$17,763,878
12.404	National Guard ChalleNGe Program		$4,162,902
12.579	Language Training Center		
	Institute of International Education 2603-UMT-5-LTC-052-PO8		$1,924,558
	Institute of International Education 2603-UMT-5-LTC-LT5-PO4		$115,270
	Institute of International Education 2603-UMT-5-LTC-052-PO6		$331,796
12.620	Troops to Teachers Grant Program		$490,898
12.901	Mathematical Sciences Grants		
	National Security Agency H98230-17-1-0299		$32,581
12.UXX	Miscellaneous Non-Major Grants	$109,110	$1,987,294
	Pacific States Marine Fisheries Commission 18-128P		$43,465
	Pacific States Marine Fisheries Commission 18-93P		$890,274
	Pacific States Marine Fisheries Commission 17-114G		$1,670,561
	Pacific States Marine Fisheries Commission 18-09G	$5,750	$148,991
		TOTAL	**$32,913,573**
		DEPARTMENT OF DEFENSE TOTAL	**$32,913,573**
DEPARTMENT OF EDUCATION			
84.002	Adult Education - Basic Grants to States	$835,382	$1,038,558
84.010	Title I Grants to Local Educational Agencies	$47,651,088	$48,809,739
84.011	Migrant Education State Grant Program	$910,171	$1,043,698
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth		$191,663
84.031	Higher Education Institutional Aid		$361,658
84.032	Federal Family Education Loans		$59,466,255
84.048	Career and Technical Education -- Basic Grants to States	$435,395	$5,638,178
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States		$8,082,283
84.144	Migrant Education Coordination Program		$20,178
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind		$254,022
84.181	Special Education-Grants for Infants and Families		$1,869,574
84.184	School Safety National Activities	$102,267	$566,335

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities		$299,790
84.196	Education for Homeless Children and Youth	$180,293	$229,588
84.287	Twenty-First Century Community Learning Centers	$5,291,795	$5,653,272
84.299	Indian Education -- Special Programs for Indian Children		
	Blackfeet Community College S299B160026		$95,122
	Fort Peck Community College S299B130018		($21)
84.323	Special Education - State Personnel Development	$121,516	$735,302
84.324	Research in Special Education		
	University of California, Davis 201500425-03		($4,211)
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities		$326,486
	University of Florida H325A120003		$45,833
84.326	Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities		$117,797
	California State University, Northridge F-11-2963-3-UMT		$59,762
	Helen Keller National Center H326T130012-15A		$70,804
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	$1,758,566	$4,563,170
84.335	Child Care Access Means Parents in School		$1,965
84.358	Rural Education	$318,828	$346,923
84.365	English Language Acquisition State Grants	$354,989	$894,711
84.366	Mathematics and Science Partnerships	$220,361	$417,603
	Bozeman Public Schools 16 0350 1513 MSP		$11,652
84.367	Supporting Effective Instruction State Grants	$9,209,959	$9,808,623
	National Writing Project 16-MT03-SEED2017-CRWPAI		$24,631
	National Writing Project - University of California, Berkeley 93-MT01-SEED2017-ILI		$9,811
84.369	Grants for State Assessments and Related Activities		$3,694,241
84.371	Comprehensive Literacy Development	$1,135,215	$1,346,192
84.372	Statewide Longitudinal Data Systems		$783,861
84.377	School Improvement Grants		$1,177,148
84.418	Promoting Readiness of Minors in Supplemental Security Income		
	State of Utah Contract REF# 146214		$543,775
	University of Utah 10033712		$40,932
84.419	Preschool Development Grants	$6,900,552	$10,054,949
84.424	Student Support and Academic Enrichment Program	$1,389,192	$1,395,029
84.998	American Printing House for the Blind		$7,108

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
84.UXX	Miscellaneous Non-Major Grants		$135,082
		TOTAL	**$170,229,071**
Special Education Cluster (IDEA)			
84.027	Special Education Grants to States	$36,504,953	$40,377,900
84.173	Special Education Preschool Grants	$1,112,127	$1,115,103
		TOTAL	**$41,493,003**
Student Financial Assistance Cluster			
84.007	Federal Supplemental Educational Opportunity Grants		$1,380,961
84.033	Federal Work-Study Program		$2,076,927
84.038	Federal Perkins Loan Program - Federal Capital Contributions		$38,230,216
84.063	Federal Pell Grant Program		$47,694,653
84.268	Federal Direct Student Loans		$173,720,750
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)		$12,413
		TOTAL	**$263,115,920**
TRIO Cluster			
84.042	TRIO Student Support Services		$1,876,771
84.044	TRIO Talent Search		$1,086,037
84.047	TRIO Upward Bound		$1,415,017
84.066	TRIO Educational Opportunity Centers		$156,999
84.217	TRIO McNair Post-Baccalaureate Achievement		$270,359
		TOTAL	**$4,805,183**
		DEPARTMENT OF EDUCATION TOTAL	**$479,643,177**
DEPARTMENT OF ENERGY			
81.041	State Energy Program		$293,677
81.042	Weatherization Assistance for Low-Income Persons		$2,736,818
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance		$127,735
81.119	State Energy Program Special Projects		$70,358
81.138	State Heating Oil and Propane Program		$8,623
81.UXX	Miscellaneous Non-Major Grants		$40,945
		TOTAL	**$3,278,156**
		DEPARTMENT OF ENERGY TOTAL	**$3,278,156**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
93.041	Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	$28,761	$28,761
93.042	Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	$89,891	$89,981
93.043	Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	$98,349	$98,349
93.051	Alzheimer's Disease Demonstration Grants to States		$23,730
93.052	National Family Caregiver Support, Title III, Part E	$683,926	$737,399
93.070	Environmental Public Health and Emergency Response	$84,000	$463,965
93.071	Medicare Enrollment Assistance Program	$113,798	$118,823
93.072	Lifespan Respite Care Program	$107,694	$161,219
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	$2,477,577	$5,339,962
93.090	Guardianship Assistance		$1,715,979
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	$148,576	$235,308
93.103	Food and Drug Administration Research		$216,657
93.110	Maternal and Child Health Federal Consolidated Programs		$60,633
93.113	Environmental Health		$26,786
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		$170,801
93.127	Emergency Medical Services for Children		$281,287
93.129	Technical and Non-Financial Assistance to Health Centers		
	Montana Primary Care Association		($1,579)
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	$30,867	$179,829
93.136	Injury Prevention and Control Research and State and Community Based Programs		$444,222
93.150	Projects for Assistance in Transition from Homelessness (PATH)	$179,846	$186,574
93.155	Rural Health Research Centers		
	National Rural Health Association 2017 SRHA TECHNICAL ASSISTANCE		$11,995
93.165	Grants to States for Loan Repayment Program	$159,950	$159,950
93.184	Disabilities Prevention	$146,183	$284,122
93.217	Family Planning Services	$1,458,019	$1,999,978
93.236	Grants to States to Support Oral Health Workforce Activities	$177,377	$229,560
93.240	State Capacity Building		$178,734
93.241	State Rural Hospital Flexibility Program	$568,569	$545,713
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	$4,134,955	$7,058,233

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
93.251	Universal Newborn Hearing Screening		$174,417
93.262	Occupational Safety and Health Program		$182,506
	University of Colorado FY18.347.003		$11,380
	Utah State University 200644-00001-291		$15,492
93.268	Immunization Cooperative Agreements	$338,619	$11,973,933
93.270	Viral Hepatitis Prevention and Control		$37,190
93.305	PPHF 2018: Office of Smoking and Health-National State-Based Tobacco Control Programs-Financed in part by 2018 Prevention and Public Health funds (PPHF)		$805,576
93.307	Minority Health and Health Disparities Research		$9,885,541
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program		($2,460)
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)		$1,986,629
93.324	State Health Insurance Assistance Program	$381,460	$539,204
93.336	Behavioral Risk Factor Surveillance System		$333,080
93.369	ACL Independent Living State Grants		$306,864
93.448	Food Safety and Security Monitoring Project		$120,199
93.449	Ruminant Feed Ban Support Project		$16,759
93.464	ACL Assistive Technology		$379,609
93.500	Pregnancy Assistance Fund Program	$123,205	$122,938
93.516	Public Health Training Centers Program		
	University of Colorado Denver 1000587203		$40,113
93.518	Affordable Care Act - Medicare Improvements for Patients and Providers	$65,703	$70,279
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF		$616,623
93.556	Promoting Safe and Stable Families	$545,326	$656,476
93.563	Child Support Enforcement		$10,928,206
93.566	Refugee and Entrant Assistance State/Replacement Designee Administered Programs	$185,135	$310,884
93.568	Low-Income Home Energy Assistance	$1,026,902	$19,564,076
93.569	Community Services Block Grant		$3,058,076
93.586	State Court Improvement Program	$9,260	$171,340
93.590	Community-Based Child Abuse Prevention Grants	$135,394	$202,671
93.597	Grants to States for Access and Visitation Programs	$97,653	$99,513
93.599	Chafee Education and Training Vouchers Program (ETV)	$226,954	$228,408
93.600	Head Start	$4,000	$116,954
93.603	Adoption and Legal Guardianship Incentive Payments		$91,748

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
93.630	Developmental Disabilities Basic Support and Advocacy Grants	$437,718	$437,718
93.643	Children's Justice Grants to States		$94,607
93.645	Stephanie Tubbs Jones Child Welfare Services Program		$671,973
93.658	Foster Care Title IV-E	$3,063,349	$18,043,709
93.659	Adoption Assistance		$9,794,871
93.667	Social Services Block Grant		$7,126,397
93.669	Child Abuse and Neglect State Grants		$153,900
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	$835,289	$840,502
93.674	Chafee Foster Care Independence Program	$709,558	$737,551
93.732	Mental and Behavioral Health Education and Training Grants		$89,069
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF)		$104,794
93.747	Elder Abuse Prevention Interventions Program		$50,900
93.752	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	$112,052	$375,334
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)		$1,212,890
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	$388,555	$1,256,572
93.767	Children's Health Insurance Program		$97,563,104
93.788	Opioid STR	$815,788	$1,010,142
93.791	Money Follows the Person Rebalancing Demonstration		$292,256
93.800	Organized Approaches to Increase Colorectal Cancer Screening	$454,510	$667,353
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC).		$409,786
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities		$2,959
93.859	Biomedical Research and Research Training		$73,468
93.898	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	$945,665	$2,204,083
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	$19,319	$465,876
93.917	HIV Care Formula Grants	$749,693	$2,755,385
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems		$77,285
93.940	HIV Prevention Activities Health Department Based	$431,004	$861,818
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		$111,349

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients		Expenditures
93.945	Assistance Programs for Chronic Disease Prevention and Control	$3,500		$1,190,798
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs			$162,608
93.958	Block Grants for Community Mental Health Services	$1,818,818		$2,501,906
93.959	Block Grants for Prevention and Treatment of Substance Abuse	$3,315,146		$8,862,752
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants			$222,219
93.994	Maternal and Child Health Services Block Grant to the States	$1,189,440		$2,017,347
93.UXX	Miscellaneous Non-Major Grants	$7,031		$143,182
			TOTAL	**$246,677,658**
Aging Cluster				
93.044	Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	$1,411,743		$1,699,550
93.045	Special Programs for the Aging, Title III, Part C, Nutrition Services	$2,929,530		$3,306,125
93.053	Nutrition Services Incentive Program	$817,706		$1,112,104
			TOTAL	**$6,117,779**
CCDF Cluster				
93.575	Child Care and Development Block Grant	$7,183,125		$16,962,928
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund			$7,591,376
			TOTAL	**$24,554,304**
Maternal, Infant, and Early Childhood Home Visiting Cluster				
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	$8,275		$8,717
	TEAM for West Virginia Children			$2,014
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program	$2,331,736		$3,268,413
			TOTAL	**$3,279,144**
Medicaid Cluster				
93.775	State Medicaid Fraud Control Units			$682,198
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare			$2,209,659
93.778	Medical Assistance Program	$2,807,126		$1,468,545,907
			TOTAL	**$1,471,437,764**
Student Financial Assistance Cluster				
93.264	Nurse Faculty Loan Program (NFLP)			$14,620
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students			$227,150
93.364	Nursing Student Loans			$2,798,157
			TOTAL	**$3,039,927**

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
TANF Cluster			
93.558	Temporary Assistance for Needy Families	$1,945,553	$39,854,621
		TOTAL	**$39,854,621**
		DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	**$1,794,961,197**
DEPARTMENT OF HOMELAND SECURITY			
97.007	Homeland Security Preparedness Technical Assistance Program		$4
97.012	Boating Safety Financial Assistance		$569,101
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)		$192,415
97.029	Flood Mitigation Assistance		$200,505
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	$2,782,874	$2,795,640
97.039	Hazard Mitigation Grant	$1,310,518	$1,737,012
97.041	National Dam Safety Program		$242,204
97.042	Emergency Management Performance Grants	$1,795,669	$3,015,363
97.043	State Fire Training Systems Grants		$7,976
97.044	Assistance to Firefighters Grant		$1,535
97.045	Cooperating Technical Partners		$2,183,756
97.046	Fire Management Assistance Grant		$12,429,754
97.047	Pre-Disaster Mitigation	$1,090,700	$1,288,467
97.067	Homeland Security Grant Program	$3,622,982	$4,085,778
	Kalispell Police Department 14-SPWSPW-09-003		$15,397
		TOTAL	**$28,764,907**
		DEPARTMENT OF HOMELAND SECURITY TOTAL	**$28,764,907**
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	$1,675,931	$1,936,852
14.231	Emergency Solutions Grant Program		$818,661
14.235	Supportive Housing Program		$77,175
14.238	Shelter Plus Care		$146,725
14.239	Home Investment Partnerships Program	$1,273,822	$1,505,723
14.241	Housing Opportunities for Persons with AIDS		$974,481
14.251	Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants		$451,252
14.275	Housing Trust Fund		$24,757

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
14.326	Project Rental Assistance Demonstration (PRA Demo) Program of Section 811 Supportive Housing for Persons with Disabilities		$134,681
		TOTAL	**$6,070,307**
Housing Voucher Cluster			
14.871	Section 8 Housing Choice Vouchers		$22,885,198
		TOTAL	**$22,885,198**
Section 8 Project-Based Cluster			
14.195	Section 8 Housing Assistance Payments Program		$22,375,164
14.856	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation		$1,863,191
		TOTAL	**$24,238,355**
		DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL	**$53,193,860**
DEPARTMENT OF JUSTICE			
16.017	Sexual Assault Services Formula Program	$343,484	$359,072
16.528	Enhanced Training and Services to End Violence and Abuse of Women Later in Life		$70,874
16.540	Juvenile Justice and Delinquency Prevention	$253,871	$325,952
16.550	State Justice Statistics Program for Statistical Analysis Centers		$140,648
16.554	National Criminal History Improvement Program (NCHIP)		$1,312,457
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants		
	Bozeman Public Schools 2014-MU-0017 (UM #1)		$168,485
16.575	Crime Victim Assistance	$4,912,228	$5,382,555
16.576	Crime Victim Compensation		$62,184
16.582	Crime Victim Assistance/Discretionary Grants		$588,564
16.585	Drug Court Discretionary Grant Program		$549,067
16.588	Violence Against Women Formula Grants	$795,629	$886,893
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program		
	County of Missoula 2015-WR-AX-0013		$17,344
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		$158,457
16.593	Residential Substance Abuse Treatment for State Prisoners	$42,708	$46,785
16.726	Juvenile Mentoring Program		
	National 4-H Council 4-H UNDER OJJDP 2015-JU-FX-001		($380)
	National 4-H Council 4-H UNDER OJJDP 2016-JU-FX-002		$34,663
	National 4-H Council 4-H UNDER OJJDP 2017JUFX0016		$18,048
16.735	PREA Program: Strategic Support for PREA Implementation		$103,225

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
16.738	Edward Byrne Memorial Justice Assistance Grant Program	$673,413	$915,650
16.741	DNA Backlog Reduction Program		$447,313
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program		$97,982
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	$8,715	$10,013
16.751	Edward Byrne Memorial Competitive Grant Program		$10,296
16.754	Harold Rogers Prescription Drug Monitoring Program		$93,898
16.812	Second Chance Act Reentry Initiative		$80,782
16.818	Children Exposed to Violence	$255,395	$493,936
16.833	National Sexual Assault Kit Initiative		$876,210
		TOTAL	**$13,250,973**
		DEPARTMENT OF JUSTICE TOTAL	**$13,250,973**
DEPARTMENT OF LABOR			
17.002	Labor Force Statistics		$729,213
17.005	Compensation and Working Conditions		$92,479
17.201	Registered Apprenticeship	$88,126	$117,459
17.225	Unemployment Insurance		$124,337,518
17.235	Senior Community Service Employment Program	$379,873	$399,726
17.245	Trade Adjustment Assistance		$197,734
17.268	H-1B Job Training Grants		
	Northern Wyoming Community College 011717-1		$185,538
17.271	Work Opportunity Tax Credit Program (WOTC)		$66,000
17.273	Temporary Labor Certification for Foreign Workers		$204,362
17.277	WIOA National Dislocated Worker Grants / WIA National Emergency Grants	$2,778	$478,283
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	$1,240,381	$5,166,305
17.285	Apprenticeship USA Grants		$556,899
17.504	Consultation Agreements		$495,967
17.600	Mine Health and Safety Grants		$200,446
		TOTAL	**$133,227,929**
Employment Service Cluster			
17.207	Employment Service/Wagner-Peyser Funded Activities		$4,765,213
17.801	Disabled Veterans' Outreach Program (DVOP)		$573,462
17.804	Local Veterans' Employment Representative Program		($4,116)
		TOTAL	**$5,334,559**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
WIOA Cluster			
17.258	WIOA Adult Program	$402,713	$1,564,174
17.259	WIOA Youth Activities	$1,397,903	$2,168,088
17.278	WIOA Dislocated Worker Formula Grants	$1,357	$1,418,714
		TOTAL	**$5,150,976**
		DEPARTMENT OF LABOR TOTAL	**$143,713,464**
DEPARTMENT OF STATE			
19.009	Academic Exchange Programs - Undergraduate Programs		$460,441
19.010	Academic Exchange Programs - Hubert H. Humphrey Fellowship Program		
	Institute of International Education IIE0138_2.22.18		$65,350
	Institute of International Education IIE0138-MONTANA-1.1.17		$83,528
19.021	Investing in People in The Middle East and North Africa		
	World Learning Institute S04-SIZ-100-16-CA-008		$58,702
19.040	Public Diplomacy Programs		$33,863
19.401	Academic Exchange Programs - Scholars		$252,889
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges	$51,800	$626,844
		TOTAL	**$1,581,617**
		DEPARTMENT OF STATE TOTAL	**$1,581,617**
DEPARTMENT OF THE INTERIOR			
15.025	Services to Indian Children, Elderly and Families		$80,771
15.034	Agriculture on Indian Lands		
	Fort Belknap Community Council A10AV00583		$59,186
15.224	Cultural and Paleontological Resources Management		$82,910
15.225	Recreation and Visitor Services		$26,936
15.230	Invasive and Noxious Plant Management		$4,822
15.231	Fish, Wildlife and Plant Conservation Resource Management		$153,461
15.236	Environmental Quality and Protection		$963,354
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining		$2,026,837
15.252	Abandoned Mine Land Reclamation (AMLR)		$4,081,150
15.427	Federal Oil and Gas Royalty Management State and Tribal Coordination		$437,554
15.514	Reclamation States Emergency Drought Relief		$72,543
15.517	Fish and Wildlife Coordination Act		$43,867
15.524	Recreation Resources Management		$48,868

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
15.608	Fish and Wildlife Management Assistance		$84,503
15.615	Cooperative Endangered Species Conservation Fund		$2,082,345
15.626	Enhanced Hunter Education and Safety		$79,920
15.634	State Wildlife Grants	$20,000	$613,954
15.637	Migratory Bird Joint Ventures	$30,000	$38,009
15.657	Endangered Species Conservation - Recovery Implementation Funds		$186,096
15.660	Endangered Species - Candidate Conservation Action Funds		$348
	State of Utah 186103		$79,059
15.666	Endangered Species Conservation-Wolf Livestock Loss Compensation and Prevention	$48,216	$135,000
15.678	Cooperative Ecosystem Studies Units		$28,416
15.904	Historic Preservation Fund Grants-In-Aid	$73,200	$773,726
15.916	Outdoor Recreation Acquisition, Development and Planning	$241,786	$441,786
15.944	Natural Resource Stewardship		$10,079
15.945	Cooperative Research and Training Programs - Resources of the National Park System		$10,632
15.981	Water Use and Data Research		$55,604
15.UXX	Miscellaneous Non-Major Grants		$282,990
		TOTAL	**$12,984,726**
Fish and Wildlife Cluster			
15.605	Sport Fish Restoration		$7,089,811
15.611	Wildlife Restoration and Basic Hunter Education	$73,568	$13,530,913
		TOTAL	**$20,620,724**
		DEPARTMENT OF THE INTERIOR TOTAL	**$33,605,450**
DEPARTMENT OF TRANSPORTATION			
20.106	Airport Improvement Program		($25,507)
20.200	Highway Research and Development Program		$173,003
20.218	Motor Carrier Safety Assistance		$2,580,253
20.232	Commercial Driver's License Program Implementation Grant		$95,890
20.237	Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements		$15,264
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort		$15,140
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	$449,363	$554,365
20.509	Formula Grants for Rural Areas	$8,607,089	$9,601,796
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	$214,324	$1,216,905

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State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients		Expenditures
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements			$88,338
20.700	Pipeline Safety Program State Base Grant			$174,214
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	$119,990		$124,091
			TOTAL	**$14,613,752**
Federal Transit Cluster				
20.526	Bus and Bus Facilities Formula Program	$868,899		$868,899
			TOTAL	**$868,899**
Highway Planning and Construction Cluster				
20.205	Highway Planning and Construction	$2,294,585		$419,157,310
20.219	Recreational Trails Program	$2,071,498		$2,181,949
			TOTAL	**$421,339,259**
Highway Safety Cluster				
20.600	State and Community Highway Safety	$235,294		$1,796,772
20.616	National Priority Safety Programs	$172,051		$876,227
			TOTAL	**$2,672,999**
Transit Services Programs Cluster				
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	$974,808		$1,054,352
			TOTAL	**$1,054,352**
			DEPARTMENT OF TRANSPORTATION TOTAL	**$440,549,261**
DEPARTMENT OF TREASURY				
21.UXX	Miscellaneous Non-Major Grants			$878
			TOTAL	**$878**
			DEPARTMENT OF TREASURY TOTAL	**$878**
DEPARTMENT OF VETERANS AFFAIRS				
64.014	Veterans State Domiciliary Care			$169,302
64.015	Veterans State Nursing Home Care			$6,367,162
64.124	All-Volunteer Force Educational Assistance			$107,542
64.202	Procurement of Headstones and Markers and/or Presidential Memorial Certificates			$12,649
64.203	Veterans Cemetery Grants Program			$700
			TOTAL	**$6,657,355**
			DEPARTMENT OF VETERANS AFFAIRS TOTAL	**$6,657,355**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
ENVIRONMENTAL PROTECTION AGENCY			
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act		$280,269
66.040	State Clean Diesel Grant Program		$128,018
66.204	Multipurpose Grants to States and Tribes		$129,373
66.419	Water Pollution Control State, Interstate, and Tribal Program Support		$68,829
66.433	State Underground Water Source Protection		$54,852
66.454	Water Quality Management Planning		$135,392
66.460	Nonpoint Source Implementation Grants		$1,521,731
	Soil and Water Conservation Districts of Montana C9-99833615		$1,989
66.461	Regional Wetland Program Development Grants		$95,940
66.514	Science To Achieve Results (STAR) Fellowship Program		$8,851
66.516	P3 Award: National Student Design Competition for Sustainability		$339
66.605	Performance Partnership Grants		$5,417,578
66.608	Environmental Information Exchange Network Grant Program and Related Assistance		$98,375
66.708	Pollution Prevention Grants Program		$135,705
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements		$1,718,399
66.804	Underground Storage Tank Prevention, Detection and Compliance Program		$331,846
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program		$492,721
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements		$173,572
66.817	State and Tribal Response Program Grants		$753,873
66.951	Environmental Education Grants	$9,451	$44,986
		TOTAL	**$11,592,638**
Clean Water State Revolving Fund Cluster			
66.458	Capitalization Grants for Clean Water State Revolving Funds		$279,375,856
		TOTAL	**$279,375,856**
Drinking Water State Revolving Fund Cluster			
66.468	Capitalization Grants for Drinking Water State Revolving Funds		$150,318,256
		TOTAL	**$150,318,256**
		ENVIRONMENTAL PROTECTION AGENCY TOTAL	**$441,286,750**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION			
30.001	Employment Discrimination Title VII of the Civil Rights Act of 1964		$171,148
		TOTAL	**$171,148**
		EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TOTAL	**$171,148**
EXECUTIVE OFFICE OF THE PRESIDENT			
95.001	High Intensity Drug Trafficking Areas Program		$10,697
		TOTAL	**$10,697**
		EXECUTIVE OFFICE OF THE PRESIDENT TOTAL	**$10,697**
GENERAL SERVICES ADMINISTRATION			
39.003	Donation of Federal Surplus Personal Property		$101,937
39.011	Election Reform Payments		$90,569
		TOTAL	**$192,506**
		GENERAL SERVICES ADMINISTRATION TOTAL	**$192,506**
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
45.301	Museums for America		$3,839
45.310	Grants to States		$892,047
45.312	National Leadership Grants	$47,055	$261,223
45.313	Laura Bush 21st Century Librarian Program		$90,999
		TOTAL	**$1,248,108**
		INSTITUTE OF MUSEUM AND LIBRARY SERVICES TOTAL	**$1,248,108**
LIBRARY OF CONGRESS			
42.UXX	Miscellaneous Non-Major Grants		$15,725
		TOTAL	**$15,725**
		LIBRARY OF CONGRESS TOTAL	**$15,725**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.001	Science		$126,117
	University of Washington UWSC8987		$77,554
43.008	Education		
	Sciencenter 2016-01-UMT/NNX16AM22G		$18,429
		TOTAL	**$222,100**
		NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL	**$222,100**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

CFDA	Program	Amount to Subrecipients	Expenditures
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION			
89.003	National Historical Publications and Records Grants		$17,681
		TOTAL	**$17,681**
		NATIONAL ARCHIVES AND RECORDS ADMINISTRATION TOTAL	**$17,681**
NATIONAL ENDOWMENT FOR THE ARTS			
45.024	Promotion of the Arts Grants to Organizations and Individuals		$56,008
	Arts Midwest 00018001		$289
	Arts Midwest 00019995		$24,454
45.025	Promotion of the Arts Partnership Agreements	$369,889	$779,338
		TOTAL	**$860,089**
		NATIONAL ENDOWMENT FOR THE ARTS TOTAL	**$860,089**
NATIONAL ENDOWMENT FOR THE HUMANITIES			
45.129	Promotion of the Humanities Federal/State Partnership		
	Humanities Montana 17R064		$1,650
	Humanities Montana 17R057		$500
	Humanities Montana 17R025		$6,393
	Humanities Montana 18R021		$1,000
45.149	Promotion of the Humanities Division of Preservation and Access		$59,878
	Humanities Montana 16R045		$1,227
	Idaho State Historical Society		$63,280
		TOTAL	**$133,928**
		NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL	**$133,928**
NATIONAL SCIENCE FOUNDATION			
47.076	Education and Human Resources		$10,359
	Salish Kootenai College 1102362		$5,768
		TOTAL	**$16,127**
		NATIONAL SCIENCE FOUNDATION TOTAL	**$16,127**
PEACE CORPS			
45.400	Peace Corps' Global Health and PEPFAR Initiative Program		$6,725
		TOTAL	**$6,725**
		PEACE CORPS TOTAL	**$6,725**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

		Amount to Subrecipients	Expenditures
SMALL BUSINESS ADMINISTRATION			
59.037	Small Business Development Centers		$668,130
59.058	Federal and State Technology Partnership Program		$55,671
59.061	State Trade Expansion		$353,302
		TOTAL	**$1,077,103**
		SMALL BUSINESS ADMINISTRATION TOTAL	**$1,077,103**
SOCIAL SECURITY ADMINISTRATION			
96.008	Social Security - Work Incentives Planning and Assistance Program	$63,224	$197,972
		TOTAL	**$197,972**
Disability Insurance/SSI Cluster			
96.001	Social Security Disability Insurance		$6,955,496
		TOTAL	**$6,955,496**
		SOCIAL SECURITY ADMINISTRATION TOTAL	**$7,153,468**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
AGENCY FOR INTERNATIONAL DEVELOPMENT			
98.001	USAID Foreign Assistance for Programs Overseas		
	International Food Policy Research Institute 2016X179.MSU	$29,044	$42,473
	University of Florida UFDSP00011520/P0023483		$4,311
	University of Georgia RC282-392/4942936		$3,820
	Agency for International Development Total		**$50,604**
DEPARTMENT OF AGRICULTURE			
Agricultural Research Service			
10.001	Agricultural Research Basic and Applied Research	$5,000	$65,686
	South Dakota State University 3TK612		$5,892
Animal and Plant Health Inspection Service			
10.025	Plant and Animal Disease, Pest Control, and Animal Care		$363,262
	Pennsylvania State University 5608-MSU-USDA-0169		$11,872
	Pennsylvania State University 5363-MSU-USDA-0169		$2,884
	Utah State University 200592-390		$25,399
Economic Research Service			
10.250	Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations		$31,288
	Cornell Center for Behavioral Economics in Child Nutrition 77867-10660		$4,975
Farm Service Agency			
10.406	Farm Operating Loans		$24,891
Foreign Agricultural Service			
10.610	Export Guarantee Program	$18,313	$124,942
10.960	Technical Agricultural Assistance		
	Rutgers, The State University of New Jersey SA#5566; PO 566945		$25,716
Forest Service			
10.652	Forestry Research	$72,582	$4,171,917
	HydroSolutions Inc MSA 2017-TO1		$21,765
	National Wilderness Stewardship Alliance WI2017		$15,965
	River Management Society 2017RMS-WSR50		$29,004
10.678	Forest Stewardship Program		
	Pennsylvania State University 5518-UM-USDA-004		$1,330

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
10.680	Forest Health Protection		$167,814
	Salish Kootenia College 2015-38424-24031		$9,358
10.683	National Fish and Wildlife Foundation		
	Yellowstone to Yukon Conservation Initiative 15-01-UM		$8,480
10.684	International Forestry Programs		$134,994
10.699	Partnership Agreements		$142,284
Miscellaneous			
10.RD	Miscellaneous Research and Development		$293,995
	University of Wisconsin PO# 0000000666		($2,379)
National Institute of Food and Agriculture			
10.200	Grants for Agricultural Research, Special Research Grants		
	North Dakota State University FAR0025837		$5,166
	University of California, Davis A18-1334-S001		$7,255
	University of Idaho BJKP36-SB-001		$10,297
10.202	Cooperative Forestry Research		$633,926
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act		$2,946,922
10.207	Animal Health and Disease Research		$40,586
10.215	Sustainable Agriculture Research and Education		$11,397
	University of Idaho BJKP85-SB-001/PO005053		$33,307
	Utah State University 200592-395		$17,488
	Utah State University 130676003-66	$101,855	$115,402
	Utah State University 150893-00001-174		$100,243
	Utah State University 140867026-233	$5,033	$55,235
	Utah State University 150893-00001-207		$43,486
	Utah State University 200592-390		$41,504
	Utah State University 200592-384		$24,525
	Utah State University 120833011-238		($1,649)
	Utah State University 200592-447		$11,562
	Utah State University 150893-00001-270		$11,017
	Utah State University 130676025-277		$8,925
	Utah State University 201207-504		$7,776
	Utah State University 201207-554		$4,540

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
	Utah State University 200592-385		$2,724
	Utah State University 140867038-346		($847)
	Utah State University 200592-00001-311		$15,168
	Utah State University 140867034-367		$34,440
10.217	Higher Education - Institution Challenge Grants Program		$413
10.227	1994 Institutions Research Program		
	Little Big Horn College		$9,427
	Salish Kootenai College SAA-16-MSU-001		$14,500
	Salish Kootenia College 2015-38424-22668		$13,830
	Salish Kootenia College 2016-38424-2558		$33,498
10.303	Integrated Programs		$286,773
10.304	Homeland Security Agricultural		
	Kansas State University S17045		$31,814
10.307	Organic Agriculture Research and Extension Initiative	$429	$53,411
	National Center for Appropriate Technology		$18,733
10.309	Specialty Crop Research Initiative		
	Colorado State University G-1363-04		$14,500
	Cornell University 73999-10426		$79,968
	University of Tennessee 8500042739		$16,309
10.310	Agriculture and Food Research Initiative (AFRI)	$24,009	$1,213,996
	Colorado State University G-91600-3		$112,182
	Colorado State University G-91600-2		$153,992
	Kansas State University S15184		$9,626
	North Carolina State University 2015-0097-05		$35,634
	University of California, Davis 201603566-08		$151,784
	University of Nebraska-Lincoln 25-6268-0005-004		$69,024
	University of Vermont 29034SUB51751		$57,919
10.312	Biomass Research and Development Initiative Competitive Grants Program (BRDI)	$68,818	$339,626
10.318	Women and Minorities in Science, Technology, Engineering, and Mathematics Fields		$19,545
10.329	Crop Protection and Pest Management Competitive Grants Program	$61,729	$317,988
	University of California, Davis SA14-2309-34		$27,945

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
10.330	Alfalfa and Forage Research Program		
	University of California, Davis A18-0619-S003		$2,692
10.500	Cooperative Extension Service	$21,036	$151,764
	Washington State University 108815_G003545		$896
Natural Resources Conservation Service			
10.902	Soil and Water Conservation	$17,047	$325,917
	Pheasants Forever LPCI 18-01		$69,510
	Pheasants Forever 68-3A75-16-736		$257,823
10.903	Soil Survey		$5,284
10.912	Environmental Quality Incentives Program		$62,258
Rural Business Cooperative Service			
10.350	Technical Assistance to Cooperatives		
	National Association of Development Organizations 800.01		$130,301
USDA, Office of the Chief Economist			
10.290	Agricultural Market and Economic Research		$1,218
		DEPARTMENT OF AGRICULTURE TOTAL	**$13,951,829**
DEPARTMENT OF COMMERCE			
National Institute of Standards and Technology			
11.620	Science, Technology, Business and/or Education Outreach		
	Stone & Associates NIST-MEP-SA-01		$88,586
National Oceanic and Atmospheric Administration			
11.431	Climate and Atmospheric Research		$85,930
11.438	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program		
	Bering Sea Fisherman's Association AC-1609		$42,363
11.440	Environmental Sciences, Applications, Data, and Education		$1,520
11.472	Unallied Science Program		
	North Pacific Research Board 1718B		$10,128
	North Pacific Research Board 1718A		$84,483
		DEPARTMENT OF COMMERCE TOTAL	**$313,010**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
DEPARTMENT OF DEFENSE			
Advanced Research Projects Agency			
12.910	Research and Technology Development		$267,121
	North Carolina State University 2016-2896-04		$255,563
Defense Logistics Agency			
12.002	Procurement Technical Assistance For Business Firms		$154,784
	Big Sky Economic Development Authority SP4800-16-2-1622		$10,765
	Big Sky Economic Development Authority SP4800-17-2-1722		$66,557
Department of the Air Force			
12.800	Air Force Defense Research Sciences Program	$1,462,728	$15,309,317
	University of Minnesota A005720602		$109,334
Department of the Army			
12.114	Collaborative Research and Development		$104,417
	West Point Military Academy		$10,301
12.420	Military Medical Research and Development	$29,955	$717,066
12.431	Basic Scientific Research	$235,184	$3,137,589
Department of the Navy			
12.300	Basic and Applied Scientific Research		$277,244
	Glacigen Materials, Inc.		$26,114
	S2 Corporation S2-5504-15-01UC		$226,175
	TPS Associates, Inc. PO MSU-4631/4Y01-01		$49,212
Miscellaneous			
12.RD	Miscellaneous Research and Development	$407,883	$3,436,645
	Battelle Memorial Institute US001-000590859		$29,041
	Blackmore Sensor and Analytics USAF ARZ999		$1,687
	Bridger Photonics		$37
	Duke University SUBCONTRACT NUMBER 313-0742		$114,923
	Leidos PO10169067		$27,773
	S2 Corporation S2-1954-16-01		$18,969
	S2 Corporation S2-5504-16-01C		$39,796
	S2 Corporation S2-17-0003-01		$231,201
	Smartronix 18-018PO		$1,251

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		**Amount to Subrecipients**	**Expenditures**
	Spectral Molecular Imaging		$114,959
	Tufts University ARM212-MSU		$42,976
	University of Maryland 31236-Z8409102		$7,383
	West Point Military Academy		($7)
Office of the Secretary of Defense			
12.630	Basic, Applied, and Advanced Research in Science and Engineering		
	Academy of Applied Science		$20,174
	Technology Student Association 2018-2019 UNITE Summer Program		$17,422
12.632	Legacy Resource Management Program		$852
		DEPARTMENT OF DEFENSE TOTAL	**$24,826,641**
DEPARTMENT OF EDUCATION			
Institute of Education Sciences			
84.305	Education Research, Development and Dissemination		
	SRI International 51-001312		$135,646
Office of Elementary and Secondary Education			
84.299	Indian Education -- Special Programs for Indian Children		$477,307
	Little Big Horn College		($10,534)
84.367	Supporting Effective Instruction State Grants		
	National Writing Project 09-MT02-SEED2017 ILI		$10,524
Office of Postsecondary Education			
84.116	Fund for the Improvement of Postsecondary Education		
	Western Interstate Commission for Higher Education		$393
		DEPARTMENT OF EDUCATION TOTAL	**$613,336**
DEPARTMENT OF ENERGY			
81.049	Office of Science Financial Assistance Program	$1,067,447	$2,293,008
	Aerodyne Research Inc ARI 11129-2		$29,847
	Glacigen Materials, Inc.		$62,424
	Montana Emergent Technologies, Inc.		$61,678
	Sandia National Laboratories PO #1779428		$12,464
	University of Wyoming DE-SC0012671		$121,562
	Washington State University 132345-G003797		$72,193

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
81.086	Conservation Research and Development	$11,500	$3,057,473
	Kootenai Tribe of Idaho 2002-011-00-SU-BPA57-FWP-FY18		$73,778
	Kootenai Tribe of Idaho 2002-011-00-SU-BPA57-FWP-FY17		$138,244
	Pacific States Marine Fisheries Commission 17.54		$53,643
	Pacific States Marine Fisheries Commission 18-50G		$108,800
81.087	Renewable Energy Research and Development		
	Michigan State University RC107739		$75,692
	Ocean Renewable Power Company		$8,752
	University of Toledo F-2013-30		($10,498)
81.089	Fossil Energy Research and Development	$440,834	$2,436,163
Miscellaneous			
81.RD	Miscellaneous Research and Development		
	Battelle Energy Alliance DE-AC07-05ID14517		$14,425
	Lawrence Berkeley National Laboratory DE-AC02-05CH11231	$21,087	$73,209
	Sandia National Laboratories PO 1877920		$17,790
	Sandia National Laboratories 1663302		$34,627
		DEPARTMENT OF ENERGY TOTAL	**$8,735,274**
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Administration for Children and Families			
93.670	Child Abuse and Neglect Discretionary Activities		
	Futures Without Violence 2438		$8,300
	Futures Without Violence 2190		$14,579
Administration for Community Living			
93.325	Paralysis Resource Center		
	Christopher and Dana Reeve Foundation 90PR3001-01-00		$17
93.433	ACL National Institute on Disability, Independent Living, and Rehabilitation Research	$252,494	$1,626,799
	Institute for Rehabilitation and Research 18-PDR-01		$7,230
	Institute for Rehabilitation and Research 90IF0099-02-00		$6,073
	Institute for Rehabilitation and Research 18-MS2-017		$31,043
	Institute for Rehabilitation and Research 76-017		$14,468

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
	University of Kansas H133B110006		$9,322
	University of Kansas FY2017-048	$16,863	$114,151
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service		$514,150
Centers for Disease Control and Prevention			
93.136	Injury Prevention and Control Research and State and Community Based Programs	$154,678	$208,846
93.262	Occupational Safety and Health Program		
	University of Colorado FY18.347.004		$4,915
93.424	NON-ACA/PPHF - Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations		
	Association of Maternal & Child Health Programs 1U38OT000140-03		$11,907
	Association of Maternal & Child Health Programs 032718-36A		$169
	National Association of Chronic Disease Directors 1312018		$9,122
93.524	Building Capacity of the Public Health System to Improve Population Health through National, Non-Profit Organizations- financed in part by Prevention and Public Health Funds (PPHF)		
	National Association of Chronic Disease Directors 0942016		$6,232
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		
	Association of University Centers on Disabilities		$1,286
Food and Drug Administration			
93.103	Food and Drug Administration Research		$48,048
Health Resources and Services Administration			
93.107	Area Health Education Centers	$409,377	$560,405
93.110	Maternal and Child Health Federal Consolidated Programs		
	Utah State University PO338876-E REV 2		$40
	Utah State University PO369026-E		$4,927
93.157	Centers of Excellence		$193,799
93.178	Nursing Workforce Diversity		$78,473
93.301	Small Rural Hospital Improvement Grant Program	$269,081	$446,560
93.358	Advanced Education Nursing Traineeships		$2,170
93.359	Nurse Education, Practice Quality and Retention Grants	$73,651	$185,107

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		**Amount to Subrecipients**	**Expenditures**
93.732	Mental and Behavioral Health Education and Training Grants		$329,913
93.884	Grants for Primary Care Training and Enhancement	$58,252	$418,906
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program		$37
93.913	Grants to States for Operation of State Offices of Rural Health		$182,188
93.969	PPHF Geriatric Education Centers	$137,342	$739,135
Indian Health Service			
93.933	Demonstration Projects for Indian Health		
	Blackfeet Community College 2014-01-MSU		$3,904
	Fort Peck Community College		$4,251
93.970	Health Professions Recruitment Program for Indians		$482,641
Miscellaneous			
93.RD	Miscellaneous Research and Development	$416,890	$1,551,656
	Cell Signaling Technology K-002052		$3,373
	ICF International 17RWSK0007		$133,366
National Institutes of Health			
93.113	Environmental Health	$1,079,472	$2,864,496
	Meadowlark Science and Education, LLC UM_ES01A1		$100,874
	Michigan State University RC107307MON		$43,368
	Scripps Research Institute 5-52774		($626)
	Scripps Research Institute 5-53234		$71,342
	University of New Mexico 3RY74		$64,034
93.143	NIEHS Superfund Hazardous Substances_Basic Research and Education		$9,211
93.172	Human Genome Research		
	University of Alaska Fairbanks UAF-18-0068		$15,012
93.213	Research and Training in Complementary and Integrative Health		$193,535
93.242	Mental Health Research Grants		$166,040
	University of Washington UWSC10191 (BPO28076)		$279
93.273	Alcohol Research Programs		$58,440
93.279	Drug Abuse and Addiction Research Programs		$9,290
	Yale University M16A12253 (CON-80000426)		$30,480
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	$163,553	$378,998

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
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Research and Development Cluster		Amount to Subrecipients	Expenditures
93.307	Minority Health and Health Disparities Research	$192,248	$410,722
93.350	National Center for Advancing Translational Sciences		
	University of Washington 9827 BPO24085		$20,000
	University of Washington UWSC 9979		$34,379
93.351	Research Infrastructure Programs		$950,511
93.361	Nursing Research		
	Medical College of Wisconsin PO 1759446		$22,374
93.393	Cancer Cause and Prevention Research		$409,736
93.837	Cardiovascular Diseases Research		$57,286
	Mount Sinai School of Medicine 0255-7875-4609		($72,502)
	Mount Sinai School of Medicine 0255-7885-4609		$129,999
93.838	Lung Diseases Research		$156,870
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research		$439,398
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	$538,162	$2,365,856
	The John B Pierce Laboratory SUBAWARD NO. 243-A		($48)
	Yale University M17A12590-GR101226 (80001011)		$158,523
93.855	Allergy and Infectious Diseases Research	$919,987	$5,669,666
	Harvard University 114487-5109468		$8,548
	Indiana University PO1464301		$332,092
	Ohio State University UT18209		$16,708
	Promiliad Biopharma Inc R41AI118104		$54,752
	Sorrento Therapeutics, Inc. 4R42AI098182-04		($554)
	University of Connecticut 50074		$61,539
	University of Connecticut KFS #5619100, 49814		$137,974
	University of Florida UFDSP00011787		$26,201
	University of Kentucky 3048111727-15-011		($6)
	University of Louisville Research Foundation, Inc. ULRF 17-0750-01		$357
	University of Notre Dame 202953MSU		$212,731
93.859	Biomedical Research and Research Training	$3,122,057	$16,774,691
	Meadowlark Science and Education, LLC UM-OD01		$19,340
	Northwest Indian College NWIC-SA24226-MSU		$1,538
	Rutgers, The State University of New Jersey PO 663268/SUBAWARD NO 0222		$95,106

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
	University of Nevada, Las Vegas 16-746Q-UMT-BS10-01		$272
	University of Nevada, Las Vegas 18-22QR-UMT-PG81		$60,950
	University of Nevada, Las Vegas 18-22QN-UMT-05-BS		$45,115
	University of Nevada, Las Vegas 18-22QN-MSU-05-BS		$33,281
	University of Nevada, Las Vegas 17-746Q-UM-PG55-00		$10,581
	University of Nevada, Las Vegas 16-746Q-MSU-BS13-01		$300
	University of Nevada, Las Vegas 14-747X-C-01		$1,377
	University of Southern California 74478900		$23,045
	University of Washington UWSC9319		$162,902
	University of Wisconsin 766K942		$33,954
93.865	Child Health and Human Development Extramural Research	$2,491	$565,988
	Stanford University 60595107-49686		$39
	University of Virginia GB10325 151802		$54,532
93.866	Aging Research	$26,500	$94,024
	Johns Hopkins University 2003050472		$18,703
	University of Washington UWSC10030/BPO26347		$28,879
93.867	Vision Research		$284,695
	University of California, Berkeley BB00966134		$56,703
93.879	Medical Library Assistance		
	Institute for Rehabilitation and Research 18-NLM-01		$4,142
Substance Abuse and Mental Health Services Administration			
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	$20,833	$1,048,623
	Community Connections		$33,078
	Community Impact Coalition		$29,923
	Harrison County Family Resource Network		$29,709
	Potomac Highlands Guild		$30,060
	Prestera Center		$29,495
	Westbrook Health Services		$29,764
		DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	**$43,166,202**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
DEPARTMENT OF JUSTICE			
Office of Justice Programs			
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants		$31,823
		DEPARTMENT OF JUSTICE TOTAL	**$31,823**
DEPARTMENT OF STATE			
Bureau of Near Eastern Affairs			
19.500	Middle East Partnership Initiative		($336)
	Georgetown University MSU-GR205338/S/NEAAC-17-CA1016		$165,089
19.600	Bureau of Near Eastern Affairs		
	Georgetown University MSU-GR205769		$21,876
Bureau of Educational and Cultural Affairs			
19.022	Educational and Cultural Exchange Programs Appropriation Overseas Grants		
	International Research & Exchanges Board FY17-TEA-MSU-02		$37,274
19.408	Academic Exchange Programs - Teachers		
	International Research & Exchanges Board FY16-TEA-MSU-01		($3)
	International Research & Exchanges Board FY17-TEA-MSU-01		$161,887
		DEPARTMENT OF STATE TOTAL	**$385,787**
DEPARTMENT OF THE INTERIOR			
Bureau of Indian Affairs and Bureau of Indian Education			
15.034	Agriculture on Indian Lands	$10,000	$73,194
Bureau of Land Management			
15.224	Cultural and Paleontological Resources Management		$73,156
	Kautz Environmental Consultants, Inc. KAUTZ 17-18		$65,667
	Society for California Archaeology		$18,427
15.225	Recreation and Visitor Services		$24,624
	University of Alaska Fairbanks UAF 17-0045		$15,876
15.228	BLM Wildland Urban Interface Community Fire Assistance		$5,300
15.230	Invasive and Noxious Plant Management		$26,083
15.231	Fish, Wildlife and Plant Conservation Resource Management		$335,097
	Western Association of Fish & Wildlife Agencies		$52,582
	Wyoming Game and Fish Department 002670		$13,054

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
15.232	Wildland Fire Research and Studies		$265,631
	University of California, Riverside S-000770		$16,685
	Utah State University 200588-00001-294		$12,242
15.236	Environmental Quality and Protection		$289,493
15.238	Challenge Cost Share		$51,359
Bureau of Reclamation			
15.517	Fish and Wildlife Coordination Act		$4,104
15.530	Water Conservation Field Services (WCFS)		
	Farmers Canal Company of Gallatin County R17AP00325		$34,478
Miscellaneous			
15.RD	Miscellaneous Research and Development		$109,433
National Park Service			
15.915	Technical Preservation Services		$174,685
15.926	American Battlefield Protection		$4,975
15.945	Cooperative Research and Training Programs - Resources of the National Park System	$2,154	$926,622
	University of Wyoming 1003410D-MSU		$89
	University of Wyoming-National Park Service (UW-NPS) Research Station 1003410C-MSU		$5,001
Office of Surface Mining, Reclamation and Enforcement			
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining		$238,398
15.255	Science and Technology Projects Related to Coal Mining and Reclamation		$59,764
U.S. Fish and Wildlife Service			
15.605	Sport Fish Restoration		$37,717
	Wyoming Game and Fish Department 002243		$32,422
15.608	Fish and Wildlife Management Assistance		$121,565
15.611	Wildlife Restoration and Basic Hunter Education		$1,398,707
	Idaho Department of Fish and Game IDFG-MA-20151029-POP		$181,572
	Idaho Department of Fish and Game IDFG-MA-20151029		$44,369
	Idaho Department of Fish and Game IDFG-MA-20151029 SHEEP		$3,822
	Idaho Department of Fish and Game IDFG-MA-20151029 PREY		$23,897
	Kentucky Department of Fish & Wildlife Resources PON2 660 1700001465		$73,029
	Missouri Department of Conservation 377-B		$6,491

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
	Missouri Department of Conservation 369-B		$91,226
	North Dakota Game and Fish Department W-68-R-3		$15,992
	State of Colorado 17-IGA-94119		$38,615
	University of Missouri C00047758-1		$59,777
	University of Missouri C00052412-1		$32,751
15.615	Cooperative Endangered Species Conservation Fund		$7,636
15.634	State Wildlife Grants		$67,466
15.637	Migratory Bird Joint Ventures		$139,671
15.650	Research Grants (Generic)		$225,218
	University of California, Santa Cruz S0183989		$4
15.654	National Wildlife Refuge System Enhancements		$284
15.655	Migratory Bird Monitoring, Assessment and Conservation		$68,422
15.657	Endangered Species Conservation - Recovery Implementation Funds		$410,568
15.660	Endangered Species - Candidate Conservation Action Funds		$73,652
15.663	National Fish and Wildlife Foundation		
	National Fish and Wildlife Foundation 0103.13.038862	$53,756	$72,092
	The Nature Conservancy MTFO070117_NK		$7,676
15.670	Adaptive Science	$7,287	$88,976
15.678	Cooperative Ecosystem Studies Units		$240,391
U.S. Geological Survey			
15.805	Assistance to State Water Resources Research Institutes		$95,490
15.807	Earthquake Hazards Program Assistance		$14,127
15.808	U.S. Geological Survey Research and Data Collection		$397,465
15.810	National Cooperative Geologic Mapping		$199,310
15.812	Cooperative Research Units		$131,799
	Virginia Tech 446007-19890		$5,683
15.814	National Geological and Geophysical Data Preservation		$39,915
15.815	National Land Remote Sensing Education Outreach and Research		
	AmericaView Inc AV13-MT01		$25,503
15.819	Energy Cooperatives to Support the National Energy Resources Data System		$243

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
15.820	National and Regional Climate Adaptation Science Centers		
	Colorado State University G-52123-01		$74,980
	Colorado State University G-06108-1/G14AP00181		$76,927
	Colorado State University G-50003-1		$51,924
	University of Washington UWSC10097/BP#27133		$28,865
15.980	National Ground-Water Monitoring Network		$13,110
		DEPARTMENT OF THE INTERIOR TOTAL	**$7,615,368**
DEPARTMENT OF TRANSPORTATION			
Federal Aviation Administration			
20.109	Air Transportation Centers of Excellence		$31,161
Federal Highway Administration			
20.200	Highway Research and Development Program	$433,447	$948,241
	California Department of Transportation 65A0604		$65,265
	California Department of Transportation 65A0614		$32,365
	California Department of Transportation 65A0550		$12,809
	California Department of Transportation 65A0606		$23,058
	California State University, Long Beach SG199416100		$101,821
	Idaho Department of Transportation 2016-01		$8,820
	Maine Department of Transportation 017582.18		$6,011
	Minnesota Department of Transportation 1003322 WORK ORDER NO. 2		$5,988
	Minnesota Department of Transportation 1003322 WORK ORDER NO. 1		$10,187
	National Academies of Science HR 17-69 SUB0000545	$178	$75
	Nebraska Department of Roads SPR-1(16) 00730G		$1,529
	South Dakota Department of Transportation 311280 SD2016-03		$19,901
	Washington State Department of Transportation T6737 TASK 07		$10,231
	Washington State Department of Transportation T6737 TASK 09		$10,772
	Washington State Department of Transportation T6737 TASK 10		$15,690
	Washington State Department of Transportation T6737 TASK 11		$26,094
20.205	Highway Planning and Construction		$1,456,119
	Iowa Department of Transportation TPF-5(290) CONTRACT 17997	($2,104)	($3,029)

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
	Maryland Department of Transportation P01814 X-1		$22,071
	Minnesota Department of Transportation 1002306	$38,456	$154,653
	South Dakota Department of Transportation SD2014-13		($111)
	Southern Illinois University 767105-002 PO 120118		($5,462)
	Wyoming Department of Transportation RS10216		($3,021)
National Highway Traffic Safety Administration			
20.609	Safety Belt Performance Grants		
	Virginia Tech 451263-19060		$18,269
20.616	National Priority Safety Programs		
	Washington Traffic Safety Commission		$174,394
Office of the Secretary			
20.701	University Transportation Centers Program	$591,742	$1,141,708
	University of Alaska Fairbanks UAF 14-0098 FP42825	$5,500	$117,487
Pipeline and Hazardous Materials Safety Administration			
20.724	Pipeline Safety Research Competitive Academic Agreement Program (CAAP)		
	Rutgers, The State University of New Jersey 00005805 PO 449646		$4
		DEPARTMENT OF TRANSPORTATION TOTAL	**$4,403,100**
DEPARTMENT OF TREASURY			
Community Development Financial Institutions			
21.020	Community Development Financial Institutions Program		$41,687
		DEPARTMENT OF TREASURY TOTAL	**$41,687**
ENVIRONMENTAL PROTECTION AGENCY			
66.202	Congressionally Mandated Projects		
	Idaho Department of Environmental Quality K196		$5,422
	Idaho Department of Environmental Quality 5574		$18,654
66.454	Water Quality Management Planning		
	Clark Fork Coalition 215006		$11,053
66.461	Regional Wetland Program Development Grants		$236,099
66.500	Environmental Protection: Consolidated Research		
	Pegasus Technical Services, Inc. MONTT-18-001		$5,920

The accompanying notes are an integral part of this schedule.

Research and Development Cluster		Amount to Subrecipients	Expenditures
66.509	Science To Achieve Results (STAR) Research Program		
	Little Big Horn College		$53,056
	University of New Mexico 3RAW5 / 83615701		$30,469
	University of New Mexico 3RAW5		$7,455
66.510	Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development		
	Pegasus Technical Services, Inc. #MONTS-18-001		$3,042
66.716	Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies		$14,183
Miscellaneous			
66.RD	Miscellaneous Research and Development		$143
		ENVIRONMENTAL PROTECTION AGENCY TOTAL	**$385,496**
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
45.312	National Leadership Grants		$2,606
45.313	Laura Bush 21st Century Librarian Program		$18,018
		INSTITUTE OF MUSEUM AND LIBRARY SERVICES TOTAL	**$20,624**
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
43.007	Space Operations		$14,592
43.012	Space Technology		$3,290
43.001	Science	$553,596	$3,452,432
	Arizona State University 16-005		$67,317
	California Institute of Technology - Jet Propulsion Lab 1587131		$13,108
	Georgia Institute of Technology RH809-03		$391,882
	Glacigen Materials, Inc.		$25,025
	Lockheed Martin Corporation 8100002702		$326,604
	Lockheed Martin Corporation PO 4103399182		$14,562
	Nature Conservancy SCINASA201711		$30,512
	Princeton University SUB0000148		$54,656
	SETI Institute SC 3118		$43,447

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
	Smithsonian Astrophysical Observatory GO5-16091B		$22,468
	Smithsonian Astrophysical Observatory GO4-15098B		$28,920
	Smithsonian Astrophysical Observatory SV7-77003		$170,756
	South Dakota State University 3TB481		$2,000
	Southwest Research Institute K99081KJ		$37,790
	Southwest Research Institute H99053CO		$113,274
	Space Telescope Science Institute HST-GO-14047.005-A		$4,564
	Space Telescope Science Institute HST-GO-12584.006A		$18,334
	Stottler Henke Associates, Inc.		$36,987
	University Corporation for Atmospheric Research SUBAWD000125		$25,739
	University of Alaska UAF 18-0082		$48,584
	University of California, Berkeley SA1868-26308PG; BB00090555		$25,467
	University of California, Irvine 2016-3348		$24,363
	University of Colorado Denver 1552610 / NNA15BB02A		$66,792
	University of Maryland 3TB432		$48
	University of Southern California 55747174		$128,751
	University of Washington UWSC8879/BPO13182		$12,980
	University of Washington UWSC8879/BPA13182		$133,061
	University of Wisconsin 756K954		$63,454
	USDA Rocky Mountain Research Station 15-JV-11221637-051		$40,405
	Wildlife Conservation Society SERDP110515-217		$195,869
43.008	Education	$66,030	$1,375,188
43.009	Cross Agency Support		$182,871
Miscellaneous			
43.RD	Miscellaneous Research and Development		
	California Institute of Technology - Jet Propulsion Lab 1422120		$44,696
		NATIONAL AERONAUTICS AND SPACE ADMINISTRATION TOTAL	**$7,240,788**
NATIONAL ENDOWMENT FOR THE HUMANITIES			
45.161	Promotion of the Humanities Research		$52,096
		NATIONAL ENDOWMENT FOR THE HUMANITIES TOTAL	**$52,096**

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
NATIONAL SCIENCE FOUNDATION			
47.041	Engineering Grants	$6,869	$1,726,924
	Yale University GR102667 (CON-8000127)		$6,358
47.049	Mathematical and Physical Sciences		$2,196,992
	Association of Universities for Research in Astronomy N87463C		$143,758
	S2 Corporation S2-1330880-13-03		$24,309
	University of West Georgia 111554AUM		$8,208
	University Wisconsin-Milwaukee 153405537		$52,472
47.050	Geosciences	$154,993	$2,762,063
	George Washington University 14-S17		$62,517
	South Dakota School of Mines MSU 17-22		$10,330
	University of Colorado Denver 1555338-PO 1000856931		$18,715
	University of Colorado Denver 1555337/PO#1000855308		$162,196
	University of Hawaii at Manoa MA130029/MA1131		$60,618
	University of Kansas FY2018-050		$5,681
	University of Tennessee A17-0124-S001		$7,034
	Woods Hole Oceanographic Institution A101357		$58,425
47.070	Computer and Information Science and Engineering	$4,261	$479,322
	University of North Texas GF30041-1		$13,710
47.074	Biological Sciences	$190,579	$4,791,742
	Arizona State University 18-450		$3,173
	Cary Institute of Ecosystem Studies 3340-200201873		$3,445
	University of Colorado 1554533		$67,553
	University of Florida UFOER00011511		($16)
	USDA Rocky Mountain Research Station 16-JV-11221633-029		$54,679
	Washington State University 118996_G003357		$200,867
47.075	Social, Behavioral, and Economic Sciences		$296,283
	Ohio State University 60059425, PO RF01500712		$20,388
	Tufts University A130001		$894
47.076	Education and Human Resources	$137,711	$3,048,567
	Aaniiih Nakoda College MSU-3753/01		$51,782
	Chief Dull Knife College 1361522		$2,355

The accompanying notes are an integral part of this schedule.

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Research and Development Cluster		Amount to Subrecipients	Expenditures
	Colorado State University 96702-5		$98,106
	George Mason University E2033191		$43,922
	Mathematical Association of America MAA 3-8-710-891		$110,716
	Michigan State University RC104101MONTANA		$50,218
	Salish Kootenia College SAG-18-UOM-001		$2,884
	Salish Kootenia College HRD-1262779		$13,760
47.078	Polar Programs		$321,731
	University of Colorado Denver SPO 1000046125/1548197		$1,807
47.079	Office of International Science and Engineering		$264,553
47.080	Office of Cyberinfrastructure	$38,927	$2,834,028
47.083	Office of Integrative Activities	$1,073,363	$2,300,141
	South Dakota School of Mines SDSMT-MSU 18-04		$247,094
	Trustees of Dartmouth College R896/R897/1632738		$164,349
	University of Southern California 87383750/PO#10558532		$46,887
		NATIONAL SCIENCE FOUNDATION TOTAL	**$22,841,540**
SMALL BUSINESS ADMINISTRATION			
59.058	Federal and State Technology Partnership Program		
	Defense Alliance of Minnesota		$10,121
		SMALL BUSINESS ADMINISTRATION TOTAL	**$10,121**
		RESEARCH AND DEVELOPMENT CLUSTER TOTAL	**$134,685,326**
		SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TOTAL	**$3,923,475,795**

The accompanying notes are an integral part of this schedule.

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the state of Montana under programs of the federal government for the fiscal year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (referred to as the "Uniform Guidance"), and where applicable, Office of Management and Budget Circular A-133 requirements.

Because this schedule presents only a selected portion of the operations of the state of Montana, it is not intended to, and does not present, the financial positions, change in net assets, or, where applicable, its cash flows for the fiscal year ended June 30, 2018.

Significant Accounting Policies

Expenditures shown on the Schedule of Expenditures of Federal Awards are reported on the modified accrual basis of accounting, except as noted below. Under the modified accrual basis of accounting, expenditures are generally recorded in the accounting period in which the liability is incurred. However, there are some payments, such as compensated absences, that are only recorded when the payment is due.

Such expenditures are recognized following the cost principles contained in the Uniform Guidance, OMB Circular A-87, or other costs circulars wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

The Montana University System uses full accrual accounting to report campus federal expenditure activity. The Unemployment Insurance, Section 8 Voucher, and Section 8 Project-Based programs are accounted for as enterprise fund activity. Enterprise funds also use the full accrual basis of accounting. Under the full accrual basis of accounting, expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Loan and Loan Guarantee Programs (Note 2), Federal Excess Personal Property (Note 7), and the Department of Defense Firefighting Property (Note 8) are presented using

the basis of accounting described in each note. The Books for the Blind and Physically Handicapped Program (Note 9) is not presented on the Schedule of Expenditures of Federal Awards but is provided as additional information regarding the types of other federal assistance received by the state as part of this federal program.

The state of Montana did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.555, #10.565, #10.567, #10.569, and #93.053) represents the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States. During fiscal year 2018, Montana distributed $1,065,199 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed $10,377,199 in commodities in fiscal year 2018. The value at June 30, 2018 of commodities stored at the state's warehouse is $2,125,151, for which the state is liable in the event of loss. The state has insurance to cover this liability.

Minority Health and Health Disparities Research

The amount reported for the Minority Health and Health Disparities Research Program (CFDA #93.307) includes endowment funds of $9,375,000, along with interest earned on the endowment. The entire endowment amount is reported as expended each year, as the funds are restricted for the life of the endowment.

Immunization Cooperative Agreements

The amount reported for the Immunization Cooperative Agreements (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2018. The state used the Centers for Disease Control's price list to calculate the value of doses received. During fiscal year 2018, Montana received 197,502 vaccine doses valued at $10,632,121.

Note 2. Loan and Loan Guarantee Programs

The following loan and loan guarantee programs are reported on the Schedule of Expenditures of Federal Awards at their July 1, 2017 beginning loan balance plus the amount of any interest subsidy, cash, or administrative cost allowance received during fiscal year 2018:

CFDA#	Federal Loan/Loan Guarantee Program State Revolving Loans	FY 2018 Ending Balance
66.458	Capitalization Grants for Clean Water State Revolving Funds	$ 276,904,783
66.468	Capitalization Grants for Drinking Water State Revolving Funds	$ 160,334,652
	Total State Revolving Loan Programs	**$ 437,239,435**

CFDA#	Federal Loan/Loan Guarantee Program Student Financial Assistance	FY 2018 Ending Balance
	Guarantee Agency Loans	
84.032	Federal Family Education Loans	$0
	University Loans	
84.038	Federal Perkins Loan Program	$32,876,467
93.364	Nursing Student Loans	$2,401,844
93.264	Nurse Faculty Loan Program	$11,249
93.342	Health Professions Student Loans	$214,801
	Total Student Financial Assistance Programs	**$35,504,361**

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed no new loans for the Federal Family Education Loans Program (CFDA #84.032) during fiscal year 2018. At the beginning of fiscal year 2018, the loan balance was $59,296,580. Effective October 1, 2017, the loan servicing portion of the MGSLP was transferred to a federally approved national education loan servicing provider. The amount transferred at September 30, 2017 was $64,643,273, which included $53,516,103 in principal and interest and $11,127,170 in borrower collection costs.

Because of this transfer, the outstanding loan balance (including principal, accrued interest, and collection costs) of loans guaranteed in previous years, for which the federal government has imposed continuing compliance requirements, was $0 at June 30, 2018.

Perkins Loan Programs

Under the Perkins Loan Extension Act of 2015, universities participating in this program are no longer permitted to make Perkins Loan disbursements after June 30, 2018. Institutions may choose to continue servicing their existing Perkins Loans until such

time the institution's outstanding loans have been paid or full or otherwise retired. Both Montana State University and the University of Montana have chosen to continue to service their current loans. See also Note 14.

Economic Adjustment Assistance Program

The Economic Adjustment Assistance Program (CFDA #11.307) consists of two separate awards which are reported on the Schedule of Expenditures of Federal Awards at their June 30, 2018 ending loan balances. The amount of loans outstanding as of June 30, 2018 is $370,958 for award number 05-19-02445 and $2,677,370 for award number 05-79-73005.

The calculation for each of these loan balances is as follows:

Award Number: 05-19-02445		
State Name = EDA Revolving Loan		
Federal Grantor = US Department of Commerce		
Federal Program Name = Title IX SSED Revolving Loan Fund		
Federal Catalog Number = 11.307		
RLF Loan Balance FYE 2018		$ 360,714
Cash & Investments FYE 2018		$ 64,911
FY 2018 Admin paid out of RLF Income		$ 11,311
Unpaid Principal of loans written of during FY		$ 85,540
		$ 522,476
Federal Percentage		71%
Federal Share of Revolving Loan Fund		**$ 370,958**

Award Number: 05-79-73005		
State Name = EDA Revolving Loan		
Federal Grantor = US Department of Commerce		
Federal Program Name = Economic Adjustment Assistance		
Federal Catalog Number = 11.307		
RLF Loan Balance FYE 2018		$ 3,388,931
Cash & Investments FYE 2018		$ 1,631,811
FY 2018 Admin paid out of RLF Income		$ 334,831
Unpaid Principal of loans written of during FY		$ (833)
		$ 5,354,740
Federal Percentage		50%
Federal Share of Revolving Loan Fund		**$ 2,677,370**

Other Federal Loans

The following loans, originally funded through federal programs, do not have any continuing federal compliance requirements imposed on the state, other than the loan repayments. These loans are not reported on the Schedule of Expenditures of Federal Awards:

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the state of Montana $11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during fiscal year 2018. The amount of the loan outstanding as of June 30, 2018 is $5,794,872.

Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR), entered into an agreement on September 21, 1990. The BOR agreed to loan the state of Montana "…a sum of money not to exceed the lesser of (1) $3,023,925 plus reimbursable interest during construction, or (2) the actual cost of the project, including reimbursable interest during construction..." The total loan repayable is $2,990,129, and reimbursable interest during construction is $281,857. As of June 30, 2018, the loan outstanding is $1,862,630, and reimbursable interest during construction is $170,640.

Note 3. Type A Federal Programs

The State of Montana issues a biennial single audit report. The Montana Single Audit report for the two fiscal years ended June 30, 2019 will be issued by March 31, 2020.

The Type A program threshold will be determined based on actual expenditures incurred during the two fiscal years ended June 30, 2019.

Note 4. CFDA Number

The CFDA number assigned for each federal program listed in the Schedule of Expenditures of Federal Awards is based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

The complete CFDA number is a five-digit number, where the first two digits represent the federal agency and the second three digits represent the program. Programs not assigned a CFDA number in the Catalog of Federal Domestic Assistance were assigned a CFDA number in the format **.UXX or **. RD. Also refer to Note 13.

Note 5. Program Clusters

As defined by 2 CFR section 200.17, a cluster of programs is a grouping of closely related programs that share common compliance requirements. Except for the Student Financial Assistance Cluster, clusters of programs are presented on the Schedule of Expenditures of Federal Awards either within their respective federal agency (for non-research and development programs) or by federal agency and major subdivision (for research and development programs.

Student Financial Assistance Cluster

Amounts reported for the Student Financial Assistance Cluster include programs administered by both the Department of Education and the Department of Health and Human Services. These clusters are shown separately, within their respective federal agencies, on the Schedule of Expenditures of Federal Awards.

The combined Student Financial Assistance Cluster includes the following programs:

CFDA #'	Student Financial Assistance Cluster	FY 18 Expenditures
84.007	Federal Supplemental Educational Opportunity Grants	$1,380,961
84.033	Federal Work-Study Program	$2,076,927
84.038	Federal Perkins Loan Program - Federal Capital Contributions	$38,230,216
84.063	Federal Pell Grant Program	$47,694,653
84.268	Federal Direct Student Loans	$173,720,750
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	$12,413
93.264	Nurse Faculty Loan Program (NFLP)	$14,620
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	$227,150
93.364	Nursing Student Loans	$2,798,157
	Total Student Financial Assistance Cluster	**$266,155,847**

Note 6. Research and Development Grants

Research and Development includes all research activities, both basic and applied, and all development activities that are performed by a non-federal entity. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques, where such activities utilize the same facilities as other research and development activities, and where such activities are not included in the instruction function.

Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or

methods, including design and development of prototypes and processes. Federal awards that meet the research and development criteria are listed in the Research and Development Cluster.

Note 7. Federal Excess Personal Property

The state of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amounts are presented at fair market value at the time of receipt by the state, which is determined to be 22.47% of the original acquisition cost of the property.

Property received under CFDA #81.UXX, Miscellaneous Non-Major Grants, is shown at its fair market value at the time of receipt.

The following is a list of the FEPP received by the state of Montana during fiscal year 2018. The negative amount reflects property sold (title transferred at public sale) or other disposition.

CFDA #	Program	FY 18 Amount	FY 18 Ending Inventory
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	$0	$125,057
10.500	Cooperative Extension Service	$0	$3,039
10.664	Cooperative Forestry Assistance	($132,947)	$4,537,284
10.UXX	Miscellaneous – Non-major Grants	$0	$131,341
15.UXX	Miscellaneous - Non-major Grants	$3,420	$3,420
39.003	Donation of Federal Surplus Property	$101,937	$153,712
81.UXX	Miscellaneous Non-major Grants	$0	$5,150
43.UXX	Miscellaneous – Non-major Grants	$0	$640,395
47.UXX	Miscellaneous – Non-major Grants	($26,045)	$151,923

Note 8. Department of Defense Firefighting Property

The Department of Natural Resources and Conservation (DNRC) receives Department of Defense Firefighting Property (FFP). The title to this property is transferred to the DNRC. In accordance with General Services Administration guidelines, the amounts are presented at fair market value at the time of receipt by DNRC, which is determined to be 22.47% of the original acquisition cost of the property. The following is the value of FFP received by the state of Montana during fiscal year 2018:

CFDA #	Program	FY 18 Amount	FY 18 Ending Inventory
12.UXX	Miscellaneous – Non-major Grants	$307,325	$2,454,412

Note 9. Books for the Blind and Physically Handicapped

The Montana State Library receives “talking book” machines, cassette books, accessories, and magazines from the federal government under the Books for the Blind and Physically Handicapped Program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2018 was $895,761.

Since this program is considered a federal “use of equipment” agreement, the accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 10. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards.

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225).

State UI Expenditures	$106,243,557
Federal UI Expenditures	18,093,961
Total	$124,337,518

Note 11. Subgrants to State Agencies

Federal assistance transferred from one Montana state agency or university to another Montana state agency or university is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources, which are considered subgrants by the awarding agency, are treated as pass-through grants to the state. These pass-through awards are listed below the direct federal awards reported on the Schedule of Expenditures of Federal Awards. Pass-through grant numbers are included for those awards that were assigned an identifying number.

Note 12. Subgrants to Non-State Agencies

Federal assistance transferred from a Montana state agency or university to a non-state agency, such as a city, county, tribal government, or nonprofit organization, is identified

in the Amount to Subrecipients column shown in the Schedule of Expenditures of Federal Awards. These amounts are included in the expenditure totals shown on the report.

The Amounts to Subrecipients does not include federal assistance transferred from a Montana state agency or university that was originally received as a subgrant from another Montana state agency or university. These amounts are not included in the expenditure totals shown on the report, since the original award is only shown once on the Schedule of Expenditures of Federal Awards, as described in Note 11 above.

A summary of amounts that were subgranted to a non-state agency, such as a city, county, tribal government, or nonprofit organization, which were made from awards originally received from another Montana state agency or university, is shown below:

CFDA #	Federal Program	Amount to Subrecipients
Non Research and Development		
43.008	Education	$26,556
84.048	Career and Technical Education -- Basic Grants to States	$2,850,488
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	$30,144
84.367	Supporting Effective Instruction State Grants	$39,123
84.419	Preschool Development Grants	$615,641
93.262	Occupational Safety and Health Program	$3,726
	Total - Non Research and Development	**$3,565,678**
TANF Cluster		
93.558	Temporary Assistance for Needy Families	$615,985
	Total TANF Cluster	**$615,985**
Research and Development Cluster		
20.205	Highway Planning and Construction	$8,323
47.079	Office of International Science and Engineering	$16,363
84.419	Preschool Development Grants	$2,824
	Total Research and Development Cluster	**$27,510**

Note 13. Federal Awards not having a CFDA Number

The following schedules contain contract or grant numbers associated with awards that did not have a CFDA number and were assigned either a **.UXX or **.RD number in the Schedule of Expenditures of Federal Awards. Not all **.UXX or **.RD awards reported on the SEFA had a grant or contract number. Also refer to Note 4.

*Schedule of Unknown Federal CFDA Numbers (**.UXX)*

Federal Agency		*State Agency*	*Contract or Grant Number*	*Amount*
DEPARTMENT OF AGRICULTURE				
	10.U01	Montana State University - Bozeman	Unknown	$3,421
	10.U02	University of Montana - Montana Tech	Unknown	$2,528
	10.U03	University of Montana - Western	16-CS-11010200-021	$5,897
	10.U04	Department of Fish, Wildlife and Parks	Unknown	$600
	10.U05	Department of Natural Resources and Conservation	12-FI-11011100-049	$17,817
	10.U06		12-FI-11011200-022	$30,270
	10.U07		13-CS-11011000-047	$25,991
	10.U08		13-FI-11011600-045	$1,411
	10.U09		13-SA-11015600-063	$18,936
	10.U10		14-FI-11011400-011	$770
	10.U11		15-FI-11010200-001	$1,411
	10.U12		16-FI-11010200-019	$3,690
	10.U13		16-FI-11011100-060	$2,932
	10.U14		16-FI-11011500-026	$1,665
	10.U15		17-FI-11011000-042	$6,610
	10.U16		17-FI-11011600-013	$1,359
	10.U17		17-FI-11015200-003	$21,533
	10.U18		18-FI-11011600-026	$25,783
	10.U19		18-FI-11015200-008	$3,243
	10.U20		DNRC-BLM-PFP-16-001	$1,416
DEPARTMENT OF DEFENSE				
	12.U01	University of Montana - Missoula	H92236-17-P-5122	$498,543
	12.U02		W9128F-17-2-0028	$594,191
	12.U03	Department of Fish, Wildlife and Parks	17-114G	$1,670,561
	12.U04		18-09G	$148,991
	12.U05		18-128P	$43,465
	12.U06		18-93P	$890,274
	12.U07		W9128F-15-D-0015-0006	$56,594
	12.U08		W9128F-15-D-0015-0007	$99,106
	12.U09		W912DW-15-0001-0003	$178,749
	12.U10		W912DW-15-0001-0004	$252,786
	12.U11	Department of Natural Resources and Conservation	Unknown	$307,325
DEPARTMENT OF EDUCATION				
	84.U01	Office of Public Instruction	Contract # ED-IES-14-C-0086	$135,082
DEPARTMENT OF ENERGY				
	81.U01	Department of Natural Resources and Conservation	Unknown	$40,945
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
	93.U01	Department of Public Health and Human Services	Unknown	$143,182
DEPARTMENT OF THE INTERIOR				
	15.U01	Department of Fish, Wildlife and Parks	15-MU-11015600-039	$2,500
	15.U02		00-UGPR-34	$154,418
	15.U03		G17PX00725	$99,781
	15.U04		140G021890250	$22,870
	15.U05		Unknown	$3,421
DEPARTMENT OF TREASURY				
	21.U01	Department of Administration	Unknown	$878
LIBRARY OF CONGRESS				
	42.U01	Montana Historical Society	Unknown	$15,725

Schedule of Unknown Federal CFDA Numbers for Research and Development Awards (XX.RD)

Federal Agency		*State Agency*	*Contract or Grant Number*	*Amount*
DEPARTMENT OF AGRICULTURE				
	10.RD	Montana State University - Bozeman	PO# 0000000666	($2,379)
			Unknown	$274,589
		University of Montana - Montana Tech	65-0325-09-034	$8,684
			07-CS-11015600-099	$10,722
DEPARTMENT OF DEFENSE				
	12.RD	University of Montana - Missoula	W9128F-14-2-0002 TO 0017	$47,443
			W9128F-14-2-0002 TO 0011	$135,282
			W9128F-14-2-0002 TO 0012	$890,774
			W9128F-14-2-0002 TO 0013	$461,131
			W9128F-14-2-0002 TO 0016	$18,301
			W9128F-14-2-0002 TO 0018	$36,316
			W9128F-14-2-0002 TO 0019	$157,613
			W9128F-14-2-0002 TO 0020	$8,271
			W9128F-14-2-0002 TO 0021	$115,890
			W9128F-14-2-0002 TO 0022	$52,486
			W9128F-14-2-0002 TO 0024	$190,444
			W9128F-14-2-0002 TO 0025	$4,521
			W9128F-14-2-0002 TO 0026	$19,784
			W9128F-14-2-0002, TO 0001	$18,119
			W9128F-14-2-0002, TO 0027	$28,955
			W9128F-14-2-0002, TO 0028	$100,267
			W9128F-14-2-0002, TO 0029	$225,576
			W9128F-14-2-0002, TO 0030	$71,583
			W912HZ-16-2-0023	$17,226
		Montana State University - Bozeman	18-018PO	$1,251
			31236-Z8409102	$7,383
			ARM212-MSU	$42,976
			PO10169067	$27,773
			S2-17-0003-01	$231,201
			S2-1954-16-01	$18,969
			S2-5504-16-01C	$39,796
			SUBCONTRACT NUMBER 313-0742	$114,923
			USAF ARZ999	$1,687
			Unknown	$951,652
		University of Montana - Montana Tech	US001-000590859	$29,041
DEPARTMENT OF ENERGY				
	81.RD	University of Montana - Missoula	PO 1877920	$17,790
		University of Montana - Montana Tech	1663302	$34,627
			DE-AC02-05CH11231	$73,209
			DE-AC07-05ID14517	$14,425
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
	93.RD	University of Montana - Missoula	HHSN27220140050C	$1,275,784
			K-002052	$3,373
		Montana State University - Bozeman	17RWSK0007	$133,366
		University of Montana - Montana Tech	211-2014-59580	$119,391
			214-2017-M-93216	$31,200
		Department of Public Health and Human Services	HHSS283201600001C	$125,281
DEPARTMENT OF THE INTERIOR				
	15.RD	University of Montana - Missoula	P13AC00618	$15,577
			Unknown	$1,524
		Montana State University - Bozeman	Unknown	$58,148
		University of Montana - Montana Tech	H1580070001	$34,184
ENVIRONMENTAL PROTECTION AGENCY				
	66.RD	University of Montana - Missoula	EP-16-8-000017	$143
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION				
	43.RD	University of Montana - Missoula	1422120	$44,696

Note 14. Subsequent Event

Effective July 1, 2018, universities participating in the federal Perkins Loan Program (CFDA #84.032) are no longer authorized to make new loan distributions under the Perkins Loan Program Extension Act of 2015. See also Note 2.

State Responses

State of Montana

DEPARTMENT OF ADMINISTRATION

STEVE BULLOCK, GOVERNOR
MIKE COONEY, LIEUTENANT GOVERNOR

JOHN LEWIS
DIRECTOR

STATE FINANCIAL SERVICES DIVISION

Department of ADMINISTRATION MONTANA

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State Social Security Administrator
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Local Government Services
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Helena, MT 59620
(406) 444-9101

State Procurement Bureau
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Helena, MT 59620
(406) 444-2575

January 8, 2019

Angus Maciver, Legislative Auditor
Legislative Audit Division
State Capitol, Room 160
PO Box 201075
Helena, MT 59620-1705

RE: Financial Audit 17-01B, State of Montana, for the fiscal year ended June 30, 2018.

Dear Mr. Maciver:

The Department of Administration would like to thank the Legislative Audit Division for auditing the State financial statements for the fiscal year ended June 30, 2018. We appreciate your staff and the professionalism demonstrated during the audit process.

The Department of Administration's response to the items reported under Internal Control Over Financial Reporting and Compliance and Other Matters, is as follows:

The Public Employees' Retirement Board (PERB), the Montana Public Employee Retirement Administration (MPERA), and the Teacher's Retirement System (TRS) Board have taken actions to address the material violation of finance-related legal provisions, resulting from the retirement systems and disability plan that are not actuarially funded, as required by the State Constitution. PERB and TRS have a policy to recommend funding increases when plans do not amortize within 30 years. Specifically, PERB and the TRS Board are to recommend funding changes to address financial sustainability if PERB and the TRS Board cannot reasonably anticipate the amortization period would decline without changes being made by Montana Legislature.

The Board of Investments (BOI) will continue to enhance internal controls over financial reporting.

Again, we thank you for your assistance this financial reporting period. It was a pleasure working with your division throughout the audit process.

Sincerely,

John Lewis, Director

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

STEVE BULLOCK
GOVERNOR

CAPITOL BUILDING - P.O. BOX 200802
HELENA, MONTANA 59620-0802

January 15, 2019

RECEIVED
JAN 15 2019
LEGISLATIVE AUDIT DIV.

Mr. Angus Maciver
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
Helena, MT 59620-1705

RE: State of Montana Financial Audit (#17-01B)

Dear Mr. Maciver:

The Office of Budget and Program Planning has reviewed the State of Montana Financial Audit for the fiscal year ended June 30, 2018. Our office is pleased with your issuance of an unmodified opinion on our Schedule of Expenditures of Federal Awards, in relation to the financial statements as a whole, presented in this report.

Sincerely,

Tom Livers

Tom Livers
Budget Director

cc: Sonia Powell, Single Audit Coordinator

TELEPHONE: (406) 444-3616 FAX: (406) 444-4670